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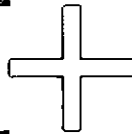
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FINANCIAL**

provider

member



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The Dental Care
PLUS GROUP
The plus is service.

Mission Statement

To be a competent, professional and qualified network of people providing competitive, quality dental managed care services in the most cost effective and responsive manner.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-K

Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For this fiscal year ended December 31, 2007

Commission File Number: 000-51954

DCP HOLDING COMPANY

(Exact name of Registrant as specified in its Charter)

Ohio

(State or Other Jurisdiction of
Incorporation or Organization)

100 Crowne Point Place
Sharonville, Ohio

(Address of Principal Executive Office)

20-1291244

(IRS Employer
Identification No.)

45241

(Zip Code)

Registrant's telephone number, including area code:
(513) 554-1100

Securities to be registered pursuant to section 12(b) of the Act:

Title of Each Class
to be so Registered

Name of Each Exchange on Which
Each Class is to be Registered

NOT APPLICABLE

NOT APPLICABLE

Securities to be registered pursuant to section 12(g) of the act:

Class A Redeemable Common Shares, no par value

Class B Redeemable Common Shares, no par value

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting Company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

As of July 1, 2007, the aggregate book value of the registrant's Redeemable Common Shares, without par value, held by non-affiliates of the registrant was approximately \$4.6 million. The value of a redeemable common share is based on the book value per share in accordance with the Company's Articles of Incorporation and Code of Regulations. As of July 1, 2007, the number of Class A and Class B Redeemable Common Shares outstanding was 659 and 7,694, respectively.

The number of Class A and Class B Redeemable Common Shares, without par value, outstanding as of March 7, 2008 was 651 and 7,793, respectively.

DOCUMENTS INCORPORATED BY REFERENCE

Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 23, 2008, into Part III, Items 10, 11, 12, 13 and 14

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FORWARD LOOKING STATEMENTS

This report contains forward-looking statements. The forward-looking statements are contained principally in the sections entitled "Item 1. Business" and "Item 7. Financial Information — Management's Discussion and Analysis of Financial Condition and Results of Operations." You can identify forward-looking statements by terminology such as "may," "might," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "project," "predict," "intend," "potential," "likely will result," or the negative of such terms or other similar expressions.

These forward-looking statements reflect our current expectations and views about future events and speak only as of the date of this report. The forward-looking statements are subject to risks, uncertainties and other factors that could cause actual events or results to differ materially from those expressed or implied by the forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements, include, among others: claims costs exceeding our estimates, a downgrade in our financial strength rating, competitive pressures, changes in demand for dental benefits and other economic conditions, the loss of a significant customer or broker, the occurrence or non-occurrence of circumstances beyond our control, and those items contained in the section entitled "Item 1A. Risk Factors." We do not undertake any obligation to update or revise any forward-looking statements to reflect future events, information or circumstances that arise after the date of this report.

PART I

ITEM 1. BUSINESS

Overview

Headquartered in Cincinnati, Ohio, Dental Care Plus Group, or DCPG or the Company, offers to employer groups of all sizes health maintenance organization ("HMO"), participating provider organization ("PPO") and indemnity plans for dental care services. As of December 31, 2007, we had approximately 238,100 members in our dental benefits programs with 1,972 dentists participating in our two provider networks in Southwestern Ohio, Northern Kentucky, Central Kentucky and Southeastern Indiana. In addition we had approximately 6,900 members in our vision benefit program. We market our products through a network of independent brokers.

DCP Holding Company is the parent holding company of DCPG, which includes wholly-owned subsidiaries Dental Care Plus, Inc., or Dental Care Plus, an Ohio corporation, Insurance Associates Plus, Inc., or Insurance Associates Plus, an Ohio corporation, and Adenta, Inc., or Adenta, a Kentucky corporation. We are owned and controlled primarily by approximately 653 dentists who participate in our Dental Care Plus plans.

Dental Care Plus, which accounts for approximately 99% of our consolidated revenues, was established in 1986 as a provider-owned, specialty health insuring corporation licensed in the State of Ohio. On July 2, 2004, shareholder ownership of Dental Care Plus was reorganized into ownership of DCP Holding Company. As a result of the reorganization, which was implemented through a shareholder approved merger, each issued and outstanding common share of Dental Care Plus was converted into one Class A Redeemable Common Share and one Class B Redeemable Common Share of DCP Holding Company. On August 31, 2005, we issued ten additional Class B Redeemable Common Shares to each of our shareholders in the form of a stock dividend.

The reorganization of Dental Care Plus into the Dental Care Plus Group was part of management's strategic plan to create a corporate structure that would facilitate continued growth of existing businesses while at the same time providing management with greater flexibility to make acquisitions of related businesses and obtain growth capital. The reorganization was also designed to provide more liquidity opportunity to our holders of common shares.

On December 18, 2006, the Ohio Department of Insurance approved Dental Care Plus, Inc.'s application for a life and health insurance license. As an Ohio-domiciled insurance company dually licensed as a life and health insurer and a specialty health insuring corporation, Dental Care Plus is now able to underwrite dental indemnity, dental PPO, dental HMO, and vision benefit products as well as other life and health oriented products in Ohio.

Business Segments

We manage our business with three segments: fully-insured dental HMO, self-insured dental HMO, and corporate, all other. Corporate, All Other consists primarily of certain corporate activities and three product lines: DentaSelect PPO, DentaPremier indemnity, and Vision Care Plus PPO. We have identified our segments in accordance with the aggregation provisions of Statement of Financial Accounting Standards ("SFAS") 131, Disclosures About Segments of an Enterprise and Related Information, which is consistent with information used by our Chief Executive Officer in managing our business. The segment information aggregates products with similar economic characteristics. These characteristics include the nature of employer groups and pricing, benefits and underwriting requirements.

The results of our fully-insured and self-insured HMO segments are measured by gross profit. We do not measure the results of our Corporate, All Other segment. We do not allocate selling, general and administrative expenses, investment and other income, interest expense, or other assets or liabilities to our fully-insured and self-insured segments. These items are retained in our Corporate, All Other segment. Our segments do not share overhead costs and assets.

On June 2, 2005, we acquired Adenta, a network-based discount dental company via a merger pursuant to which DCP Acquisition Corp., a wholly-owned subsidiary of DCP Holding Company, was merged with and into

Adenta. Adenta was acquired for a purchase price of \$250,000 plus the assumption of \$241,985 in debt. Adenta was previously owned by its dental provider shareholders.

We acquired Adenta in order to obtain approximately 10,000 members consisting of approximately 7,000 group members and 3,000 individual members, and a provider network of approximately 500 dentists. Certain aspects of the Adenta acquisition are more fully described in Note 2 to the consolidated financial statements included in Item 8. — Financial Statements and Supplementary Data. Of the 10,000 acquired Adenta members, as of December 31, 2007 no members continue to be Adenta members and approximately 5,600 of the group members have been transitioned to either our dental HMO or PPO product. The rest elected not to renew their Adenta plan or transition to another one of our products.

Managed Dental Benefits Market

According to the National Association of Dental Plans (“NADP”), in 2006 approximately 12.2 million persons residing in Ohio, Kentucky and Indiana were covered by some form of dental benefit through employer-sponsored group plans, other group or individual plans, or publicly funded dental coverage. This represents approximately 56% of the population of these states. This enrollment level represents an increase of approximately 8% from the estimated 2005 enrollment level in these states.

The following table shows the estimated 2006 and 2005 dental enrollment statistics for Ohio and Kentucky, the two states where we have group dental business:

	Ohio				
	Estimated 2006 Enrollment	% of Total	Estimated 2005 Enrollment	% of Total	% Change 2005 to 2006
Dental HMO	381,096	6%	317,822	5%	20%
Dental PPO	3,484,872	52%	3,213,765	52%	8%
Dental Indemnity	995,654	15%	1,107,676	18%	(10)%
Discount Dental	365,504	6%	232,385	4%	57%
Direct Reimbursement	33,335	1%	32,865	1%	1%
Publicly Funded	1,328,569	20%	1,221,712	20%	9%
Total Dental	6,589,030	100%	6,126,225	100%	8%

	Kentucky				
	Estimated 2006 Enrollment	% of Total	Estimated 2005 Enrollment	% of Total	% Change 2005 to 2006
Dental HMO	96,250	4%	122,301	6%	(21)%
Dental PPO	1,066,891	46%	835,910	38%	28%
Dental Indemnity	353,685	15%	399,195	19%	(11)%
Discount Dental	125,000	5%	125,000	6%	0%
Direct Reimbursement	—	0%	—	0%	0%
Publicly Funded	691,000	30%	656,450	31%	5%
Total Dental	2,332,826	100%	2,138,856	100%	9%

Source: NADP & Delta Dental Association, Ohio Department of Jobs and Family Services and the Kentucky Cabinet for Health and Family Services

The NADP data indicates that the dental PPO portion of the total enrollment in Ohio was 52% in 2006 compared to 52% in 2005 and in Kentucky was 46% in 2006 compared to 38% in 2005. Dental HMO enrollment increased to 6% of total dental enrollment in Ohio in 2006 compared to 5% in 2005, and decreased in Kentucky from 6% in 2005 to 4% in 2006. Discount dental enrollment in Ohio increased in Ohio from 4% in 2005 to 6% in 2006, and decreased in Kentucky from 6% in 2005 to 5% in 2006.

Over 97% of our total revenues are derived from dental HMO products. Total dental HMO enrollment increased in Ohio in 2006 compared to 2005, and total dental HMO enrollment decreased in Kentucky in 2006 compared to 2005. Our enrollment increased 15% in 2006 compared to 2005 and 12% in 2007 compared to 2006.

Our Products

The following table presents our product membership, premiums and administrative services only, or ASO, fees in our respective business segments for the year ended December 31, 2007:

	<u>Membership</u>	<u>Premiums</u>	<u>ASO Fees</u>	<u>Total Premium Revenue</u>	<u>Percent of Total Premium Revenue</u>
	(Dollars in thousands)				
Fully-Insured Dental HMO	133,700	\$38,496	\$ —	\$38,496	64.2%
Self-Insured Dental HMO	84,300	18,724(1)	1,044(2)	19,768	33.0%
Other Products	<u>27,000</u>	<u>1,209</u>	<u>477</u>	<u>1,686</u>	<u>2.8%</u>
Total	245,000	\$58,429	\$1,521	\$59,950	100.0%

- (1) Self-insured dental HMO premium revenue or premium equivalent revenue is based on the gross amount of claims incurred by self-insured members and is recognized as revenue when those claims are incurred.
- (2) Self-insured ASO fees are the administrative fees we charge to self-insured employers to manage their provider network and process and pay claims. ASO fees are recognized as revenue when they are earned.

Our products primarily consist of dental HMO, dental PPO and dental indemnity plans, with dental HMO products constituting 97% of our total revenues. All of our products are marketed to employer groups. Our business model allows us to offer dental benefit products including broad networks of participating dentists while at the same time promoting the use of private practice fee-for-service dentistry, a primary interest of our participating dentists. The dental benefit products we offer currently vary depending on geographic market. Our objective is to offer our dental HMO products in all markets we serve, in both fully-insured or self-insured forms. Similar to our competitors' dental PPO products, our dental HMO products provide members with access to a broad provider network.

We currently market our dental HMO, dental PPO, and dental indemnity plans to employers in select Ohio, Kentucky and Indiana counties.

In general, our other, non-HMO products are offered in all counties in Ohio, Kentucky and Indiana. We do not, however, offer our PPO product in the eight county area Dental Care Plus has been serving since 1986. This area, which we refer to as our original eight county service area, includes Butler, Clermont, Hamilton and Warren counties in Ohio, and Boone, Campbell, Kenton and Pendleton counties in Kentucky.

In the markets outside of our original eight county service area, including Dayton/Springfield, Ohio and Louisville and Lexington, Kentucky, our products are often offered to employer groups as "bundles," where the subscribers are offered a combination of dental HMO, dental PPO and dental indemnity options, with various employer contribution strategies as determined by the employer.

Individuals become subscribers of our dental plans through their employers. Qualified family members of these subscribers become members through such individuals. Employers pay for all or part of the premiums, and make payroll deductions for any premiums payable by the employees.

Fully-Insured Dental HMO

Our fully-insured dental HMO products segment includes our Dental Care Plus dental HMO plan. Under our dental HMO plan, premiums are paid to Dental Care Plus by the employer, and members receive access to our dentist network in their region. Plan designs range from full premium payouts by the employer to shared contributions of varying proportions by the employer and its employees to full payment by the employees. There are no waiting periods and there is no balance billing in our fully-insured dental HMO. Covered dental services are

segmented into three categories: preventative, basic and major services, typically covered at 100%, 80% and 50%, respectively. In most cases, each member has a \$1,000 annual maximum benefit and \$1,000 lifetime orthodontia maximum benefit. For the year ended December 31, 2007, fully-insured dental HMO premiums totaled approximately \$38.5 million, or 64% of our total premiums and ASO fees.

Self-insured Dental HMO

Our self-insured dental HMO segment includes only our ASO product, which we offer through Dental Care Plus to employers who self-insure their employee dental plans. These employers pay all claims according to our fee schedule. We receive fees to provide administrative services that generally include the processing of claims, offering access to our provider networks, and responding to customer service inquiries from members of these plans. This product is offered only to larger employer groups that have the financial resources to bear the claims risk for the dental benefits of employees and their family members. Self-insured employers retain the risk of financing substantially all of the cost of dental benefits. Self-insured employers may purchase stop loss insurance coverage from third-party carriers to limit aggregate annual costs. For the year ended December 31, 2007, self-insured ASO fees totaled approximately \$19.8 million, or 33% of our total premiums and ASO fees.

Corporate, All Other

We offer dental PPO and dental indemnity products underwritten by Dental Care Plus. We also offer dental PPO, dental indemnity and vision PPO benefit plans that are underwritten by third-party insurance carriers. Our subsidiary, Insurance Associates, is an insurance agency licensed in Ohio, Kentucky and Indiana that markets our third-party dental PPO and vision benefit products. Insurance Associates earns commissions and administrative fees based on members enrolled in the dental PPO and vision benefit plans. Our dental indemnity product, DentaPremier, is marketed by our internal sales staff and local insurance brokers. Our dental PPO, dental indemnity and vision benefit product lines collectively aggregated approximately \$1.7 million in premiums, or less than 3% of total premiums and ASO fees, for the year ended December 31, 2007.

DentaSelect — Our dental PPO product, DentaSelect, was introduced in 2005 and is administered by an independent third party administrator ("TPA"). DentaSelect includes some elements of managed health care; however, it includes more cost-sharing with the member, through premium contributions, co-payments and annual deductibles. Employers and their participating employees typically share the cost of premiums in various contribution proportions. Premiums are paid to Dental Care Plus or a third-party insurance carrier. The DentaSelect PPO also is similar to traditional health insurance because it provides a member with more freedom to choose a dentist. Members are encouraged, through financial incentives, to use participating dentists who have contracted with us to provide services at favorable rates. In the event a member chooses not to use a participating health care provider, the member may be required to pay a greater portion of the provider's fees.

DentaPremier — Since 2003, we have been offering DentaPremier, a dental indemnity product, to employers who participate in our Dental Care Plus HMO fully-insured and self-insured plans with out of area members or members that require complete freedom of provider access. We introduced this plan because many Ohio, Kentucky and Indiana employer groups have employees in other states performing sales or service functions. DentaPremier is a traditional dental indemnity plan that allows members to use any dentist they wish. Employers and their participating employees typically share the cost of premiums in various contribution proportions. As with our dental HMO products, members are responsible for paying standard deductible amounts and co-payments. Premium rates for DentaPremier are generally higher than premium rates for our dental HMO products. In 2003, Dental Care Plus entered into a contract with a third-party insurance carrier to underwrite this plan. In October of 2007, the majority of these dental indemnity members were transitioned to Dental Care Plus insurance policies.

Vision Care Plus — Our vision benefit PPO product, Vision Care Plus, is underwritten and administered by an independent TPA. Members can access both network and out-of-network vision care providers and are subject to fixed co-payments and benefit limits. Premium cost is typically shared by employers and their participating employees in various contribution proportions. We began offering Vision Care Plus in 2005 to Dental Care Plus employer groups whose existing contracts are up for renewal as well as to new employer groups.

Seasonality of Dental Service Utilization

Based on our healthcare service expense on a per member per month ("PMPM") basis that adjusts the quarterly healthcare service expense for membership volume changes, our dental plan members have historically used their dental plan benefits according to a seasonal pattern that has caused our quarterly healthcare services expense to be highest in the first quarter, slightly below average in the second quarter, slightly above average in the third quarter and lowest in the fourth quarter. The following table shows these trends in tabular form:

	Healthcare Service Expense					
	2007		2006		2005	
	\$000's	\$PMPM	\$000's	\$PMPM	\$000's	\$PMPM
First Quarter	12,144	18.78	10,543	18.85	8,804	18.33
Second Quarter	11,356	17.96	9,744	17.59	8,924	16.99
Third Quarter	12,620	18.39	11,157	17.95	9,892	17.49
Fourth Quarter	11,383	17.44	9,682	16.30	8,270	15.91

Claims are higher in the first quarter because almost all of our employer-sponsored plan years commence on January 1. The third quarter increase is primarily due to the high level of dental services used in August by student members prior to returning to school. Use of dental services is lowest in the fourth quarter due to the holiday season and the fact that a portion of our members have already reached their maximum annual benefit level for the year.

Business Strategy

Our objective is to become one of the largest providers of dental benefits in the Midwest. Our strategy is to continue increasing membership in all of our plans by gaining new employer group customers, acquiring other similar dental plans, adding more participating dentists to our HMO provider networks and increasing our product offerings. We intend to further develop the use of dental indemnity and PPO products as a means to grow membership sufficient to support the addition of more provider relations staff to recruit dentists into our dental HMO provider network because we believe the dental HMO products marketed by Dental Care Plus represent our best competitive advantage.

Our Dental Care Plus HMO plans offer both the broad provider access ordinarily attributed to a dental PPO and the utilization review and cost control features of a dental HMO. The combination of a large provider network, competitive pricing and renewal practices, and an emphasis on outstanding customer service have allowed us to effectively compete with dental PPOs. Because we are primarily owned by dentists who participate in our Dental Care Plus plans, and our dentists are reimbursed on a fee-for-service basis, we often have a competitive advantage in recruiting and retaining dentists for our network.

Membership Retention — Employers generally contract with our dental HMO plans for a period of one year. Continuous marketing and sales efforts are made to obtain contract renewals on an annual basis. The ability to obtain contract renewals depends on our premium schedules, competitive bids received by employers from our competitors, and employee satisfaction with our plans, among other factors. The cost of replacing lost members is higher than retaining members. Accordingly, membership retention is a primary focus of our marketing efforts. We strive for consistent employer and broker contacts and fair, justified renewal pricing in order to increase retention rates. Due to these membership retention efforts, we achieved a retention rate of approximately 97.3% in 2007, compared to retention rates of 96.0% and 98.5% in 2006 and 2005, respectively.

Group Billing and Collection — We dedicate significant resources to achieving prompt and accurate billing for premiums, claims and ASO fees. We also have a structured process for monitoring and collecting our accounts receivable.

Customer Service — We provide customer service to employer group administrators, members, and dentists. Customer service representatives respond promptly to employer and member inquiries regarding member identification cards and benefit determinations and provider staff inquiries regarding eligibility, benefit verification and claims payments. We strive to answer questions in one phone call. We monitor key customer service statistics in order to maintain positive customer relationships with all constituencies.

Information Technology — In February 2006, our new dental plan administration system became fully operational. This system allows us to easily adapt to benefit changes sought by employer groups and allows for increased efficiencies and costs savings in the functional areas of group marketing, enrollment, billing, collections, cash application, claims adjudication and claims payment by reducing manual processing and facilitating the development of electronic membership enrollment, electronic group billing, and automated cash application. In addition, with the new system we expect an increase in the percentage of claims that can be electronically loaded and adjudicated. We are also focused on the importance of data integrity, ease of data extraction, and interfacing with banks, clearinghouses, and other business partners.

We lease our dental plan administration system equipment under a master equipment lease with The Fifth Third Leasing Company dated October 1, 2004. The lease term with respect to equipment commenced on January 31, 2005 and expires January 31, 2008. Under this lease, we are obligated to pay the bank \$4,443 per month. At the end of the lease term, we have the option of either purchasing or returning the equipment. The equipment must be purchased at its fair market value, defined as the amount agreed upon between us and the lessor, or, if not so agreed, the amount determined by an independent appraiser. We also lease our dental plan administration software under the master equipment lease. The lease term with respect to software commenced on January 31, 2005 and expires January 31, 2009. Under this lease, we are obligated to pay the bank \$19,351 per month. At the end of the lease, we retain use of the software and will pay monthly maintenance fees directly to the software vendor.

Dentist Networks

We maintain two separate dental networks comprised of dentists who have contracted with Company subsidiaries. As of December 31, 2007, we had provider contracts with 1,972 dentists. Of these participating dentists, 1,007 dentists are located in Ohio, 887 dentists are located in Kentucky, 38 dentists are located in Indiana, and 40 dentists are located in other states. Only participating dentists who were in our original eight county area may hold Class A redeemable common shares of the Company, which are the only voting shares in the Company. Of the 1,972 participating dentists, 653 are shareholders who each own one Class A voting redeemable common share. Most of these 653 shareholders also own 11 or more Class B non-voting redeemable common shares. There are also 24 shareholders who are retired dentists, each of whom owns 12 Class B non-voting redeemable common shares.

We actively recruit dentist providers in each of our markets. In some instances, we identify expansion area counties where additional providers are needed and locate dentists in these expansion area counties by reviewing state dental licensure records. In other cases, new employer group customers request that we work to recruit specific dentists their employees desire to have access to in our provider network.

Before a dentist can become a participating provider, we engage in extensive due diligence on the dentist's professional licenses, training and experience, and malpractice history. The dentist must also be recommended by our Credentialing Committee consisting of five experienced dentists who are members of our Board of Directors (the "Board").

Our provider contracts require that participating dentists participate in periodic fee surveys for the purpose of establishing our fee schedule, to participate in and be bound by our utilization review and credentialing plans (see "Utilization Control and Quality Assurance Policies" below), to participate in the peer review program of their state dental association, to maintain a state license in good standing to practice dentistry to maintain professional liability insurance coverage in amounts determined by our Board, and to maintain patient records in a confidential manner. Our provider contracts are for a term of one year and may be automatically renewed for successive one year periods unless a written termination notice is given by either party on 30 days notice.

Participating dentists are reimbursed for services provided to members of our dental plans on a "fee-for-service" basis based on a maximum allowable fee schedule we have developed or the actual fee charged by the dentist, whichever is less. In the case of our dental HMO, reimbursements to dentists are subject to a percentage withhold of the amount otherwise payable to the dentist. At the end of each fiscal year, our Board evaluates the performance of our dental HMO plans, capital and surplus requirements prescribed by the Ohio Department of Insurance, factors impacting our financial strength rating, funding needed to support strategic objectives for the coming years and any other factors deemed relevant by the Board and, based on that evaluation, determines the amount of the withhold that should be paid to dentists, if any. If we have met our capital and surplus requirements as

prescribed by the Ohio Department of Insurance (see "State Regulations" and "Federal Regulations" below) and have the necessary funding to support our strategic objectives, the Board will generally authorize a provider withhold payment out of excess capital, although there is no requirement to authorize such withhold return.

Our networks are important to the success of our dental HMO plans and our PPO plan. We have a dedicated provider relations department that communicates with network dentists and performs periodic credentialing and re-credentialing of each participating dentist.

We provide access to our Dental Care Plus provider network for a fee to a select group of self-insured employer groups represented by independent TPAs in Southwestern Ohio and Northern Kentucky. Each TPA pays Dental Care Plus a network access fee on behalf of the self-insured employer group based on the number of employees using the network. The self-insured employer group members gain access to the Dental Care Plus provider network, and the TPA pays the provider claims in accordance with the Dental Care Plus fee schedule. The network providers have consented to this arrangement in their provider contracts.

Employees

In 2007, we employed a total of 52 employees. We have no collective bargaining agreements with any unions and believe that our overall relations with our employees are good.

Sales and Marketing

We market our dental plans primarily to employers through certain sales personnel and approximately 240 independent insurance brokers located in Southwestern Ohio, Dayton, Ohio, Northern Kentucky, and Central Kentucky. Approximately 96% of our membership comes from the efforts of these independent insurance brokers. One independent broker sourced approximately 39% of our business in 2007. Two other brokers sourced a substantial portion of our business, each accounting for approximately 7% of our business in 2007.

Many of our employer group customers are represented by insurance brokers and consultants who assist these groups in the design and purchase of health care products. We generally pay brokers a commission based on premiums, with commissions varying by market and premium volume, pursuant to our standard broker agreement. In addition to commissions based directly on premium volume for sales to particular customers, we also have programs that pay brokers and agents on other bases. These include commission bonuses based on sales that attain certain levels or involve particular products. We also pay additional commissions based on aggregate volumes of sales involving multiple customers.

Utilization Control and Quality Assurance Policies

Utilization control and quality assurance policies are essential to our success. Our reimbursement structure limits the frequency of various procedures in order to control utilization of dental care by members of our fully-insured and self-insured dental plans.

Each dentist in our networks is obligated to adhere to our utilization review program. Non-compliance or continued deviations from the utilization review program will result in sanctions against a dentist. Such sanctions may include probation, suspension or expulsion as a participating dentist, and may also affect the dentist's ability to receive compensation from the plan for services provided to subscribers. We believe that a stringent utilization review program is necessary to provide adequate cost containment.

Our Board of Directors appoints a committee of dentists to ensure that the utilization review program is met and continually upgraded as appropriate. The Utilization Review/Quality Assurance Committee ("UR/QA Committee") is charged with reviewing service patterns of providers and requests for pretreatment estimates that do not clearly meet appropriate standards.

The UR/QA Committee is also charged with retrospective review of all covered services provided by a dentist to determine whether the frequency and nature of the services are in compliance with standards adopted by the UR/QA Committee. The UR/QA Committee may recommend that the participating agreement of a dentist who is not in

compliance with these standards be terminated, suspended or not renewed, or that benefits paid to the provider for particular services rendered by him or her be reduced.

Credentialing

The Credentialing Committee, which is comprised of dentists and is appointed by our Board of Directors, has oversight over the credentialing of new dentist providers that apply to be participating providers in our provider networks. This committee oversees the periodic re-credentialing of dentist providers already in one of our existing provider networks and evaluates whether a dentist should be terminated from one of the provider networks if an action is filed against the dentist with a state department of insurance or other regulatory agency or the provider loses his medical malpractice insurance coverage due to an adverse claim. The Credentialing Committee is also charged in part with ensuring that all participating dentists maintain good standing with regulatory agencies. The recommendations of the Credentialing Committee are forwarded to our Board of Directors for consideration. Any decision of the Board of Directors, whether relating to payment/coverage disputes or sanctions, is final.

Risk Management

Through the use of internally-developed underwriting criteria, we determine the risk we are willing to assume and the amount of premium to charge for our dental benefit products. Employer groups must meet our underwriting standards in order to qualify to contract with us for coverage.

Competition

The marketing and sale of fully-insured and self-insured dental benefit plans is highly competitive. Rising health care benefit premiums and changes in the economy have had an impact on the number of companies able to offer dental benefits to their employees. A significant portion of the employers who offer our plans are in the education, government and health care industries. Concentration of business in these industries insulates us from membership decreases that competitors may face if the economy were to enter into a sluggish or recessionary period.

We primarily compete with full-line dental only plans, other dental HMO carriers and national insurance companies that offer dental or vision coverage. Many of the companies with whom we compete are larger, have well-established local, regional, and/or national reputations, and have substantially greater financial and sales resources. It is possible that other competitors will emerge as the market for dental plans continues to develop.

Our major competitors are Delta Dental of Ohio and Delta Dental of Kentucky. These competitors operate as dental HMOs and dental PPOs in which members receive certain benefit incentives to receive services from network dentists. Dental PPO members may also use non-network dentists, but at reduced benefit levels.

Additional competitors include national insurance companies such as Guardian, Met Life, Humana and Anthem. These companies offer dental indemnity and dental PPO plans. Most of these dental plans are similar to those offered by us in design, and they also pay providers on a fee-for-service basis. Dental indemnity plans lack the basic characteristics of a dental HMO plan, including contractually enforced utilization and quality assurance standards and limitations on dentists' fees, and members are not restricted to participating dentists. Dental PPO plans include both in-network benefits similar to those of a dental HMO plan and out-of-network benefits like those associated with a dental indemnity plan.

Our ability to offer either or both a dental indemnity plan and a PPO plan has had a positive impact on our membership growth. We are currently licensed to underwrite dental HMO, dental PPO and dental indemnity plans in Ohio. In addition we are licensed to underwrite dental HMO and dental PPO in Kentucky. Some of our dental indemnity and dental PPO offerings are still underwritten by third party underwriters.

Our main competitors in the fully-insured vision benefit area are Vision Service Plan and EyeMed, a subsidiary of Lenscrafters. We believe that our vision benefit plans are competitively priced and include sufficient benefits to compete effectively.

Our dental benefits market share of approximately 15% to 20% in Southwestern Ohio and Northern Kentucky market gives us a strong competitive position. This market share is due to our large provider network, competitive pricing and customer service. In 2007 our dental membership in Southwestern Ohio increased to approximately 201,000 members as of December 31, 2007 from approximately 187,000 members as of December 31, 2006. Dental membership in Northern Kentucky increased to approximately 21,000 members by the end of 2007 from approximately 15,000 members at the end of 2006.

We have less than 10,000 total members in the Dayton and Springfield, Ohio market. We have developed a provider network in Dayton, Ohio that includes approximately 57% of the licensed dentists in the area. Since the introduction of the DentaSelect PPO product in 2005, our relationships with brokers in this area have improved, and we have added a significant number of employer groups. As of December 31, 2007, we had approximately 9,200 dental PPO members and approximately 500 dental HMO members in the Dayton and Springfield market.

With the acquisition of Adenta, we became a competitor in the dental benefits market in Central Kentucky with approximately 10,000 dental members, consisting of approximately 7,000 group members and 3,000 individual members as of June 2005. With the addition of approximately 500 network dentists via the Adenta acquisition, we now have a network of approximately 700 dentists, which represents approximately 35% of the licensed dentists in Central Kentucky. We have transitioned approximately 5,600 of the 7,000 Adenta group members acquired at renewal to either the DentaSelect PPO product or the Dental Care Plus HMO product. In addition, we have been building insurance broker relationships in Central Kentucky and have been quoting on new employer groups in this market. As of December 31, 2007, we had no Adenta members, approximately 500 dental HMO members and approximately 6,100 dental PPO members in our Central Kentucky market.

Customers

During 2007, approximately 22% of our fully-insured premium revenue was generated by four employers. Also during 2007, approximately 50% of our net self-insured administration and claims revenue was generated by two employers. One of these employers, The Health Alliance of Greater Cincinnati, generated approximately 10% of our consolidated revenue. While we believe that our relationship with each of these employers is good, there is no guarantee that this will continue to be the case. The termination of our relationship with any one of these employers could have a material adverse effect on the Company. As we continue to increase the number of employers and members in our dental plans, our dependence on these employers as a source of revenue and enrollment will lessen in proportion to our total revenue and size.

Each of our customers signs a standard form agreement, which differs depending on whether the customer is fully-insured or self-insured. There are two standard form agreements for fully-insured customers — one for employer-sponsored plans, and one for voluntary employee plans. All of our standard form agreements are for one year terms and automatically renew for additional one-year terms. Either party may terminate our fully-insured customer contracts by giving 45 days' prior written notice, and our self-insured customer contracts by giving 60 days' prior written notice. The premium rates set forth in each fully-insured customer contract remain in effect during each one year term, and may only be increased at renewal.

State Regulations

General — State insurance laws and other governmental regulations establish various licensing, operational, financial and other requirements relating to our business. State insurance departments in Ohio, Kentucky and Indiana are empowered to interpret such laws of their respective states and promulgate regulations applicable our business.

The National Association of Insurance Commissioners ("NAIC") is a voluntary association of all of the state insurance commissioners in the United States. The primary function of the NAIC is to develop model laws on key insurance regulatory issues that can be used as guidelines for individual states in adopting or enacting insurance legislation. While NAIC model laws are accorded substantial deference within the insurance industry, these laws are not binding and variations from the model laws from state to state are common.

In 2007, Dental Care Plus was dually licensed as a life and health insurance company and a health insuring corporation providing specialty health care services under Ohio law, as a limited health service benefit plan in Kentucky and as a dental HMO in Indiana. The regulations of each state insurance department include specific requirements with regard to such matters as minimum capital and surplus, reserves, permitted investments, contract terms, policy forms, claims processing requirements and annual reports. If Dental Care Plus fails to maintain compliance with all material regulations, regulatory authorities are empowered to take certain actions against it, such as revoking its license, imposing monetary penalties, or taking over supervision of its operations, or seeking a court order for the rehabilitation, liquidation or conservation of Dental Care Plus.

Insurance Associates Plus is licensed in Ohio, Kentucky and Illinois as an insurance agency. As such, it is required to have at least one insurance agent licensed in each of those states. If Insurance Associates Plus fails to meet this requirement in Ohio, Kentucky or Illinois, its license could be revoked by the state.

Adenta is licensed as a prepaid dental plan and as a life and health insurance agency in Kentucky. Recent changes to Kentucky law have lessened the regulatory requirements applicable to Adenta, including elimination of the requirement to file annual reports with the Kentucky Office of Insurance.

NAIC Accounting Principles — In 1998, the NAIC adopted the Codification of Statutory Accounting Principles that became the NAIC's primary guidance on statutory accounting. The Ohio Department of Insurance has adopted the Codification. Statutory Accounting Practices ("SAP") differ in some respects from accounting principles generally accepted in the United States ("GAAP"). The significant difference for the Company is:

- Similar to GAAP, deferred income taxes are provided on temporary differences between the statutory and tax bases of assets and liabilities for SAP; however, statutory deferred tax assets are limited based upon tests that determine what is an admitted asset under SAP. Under SAP, the change in deferred taxes is recorded directly to surplus as opposed to GAAP where the change is recorded to current operations.

Risk Based Capital — The NAIC's Risk-Based Capital for Life and/or Health Insurers Model Act (the "Model Act") provides a tool for insurance regulators to determine the levels of statutory capital and surplus an insurer must maintain in relation to its insurance and investment risks and whether there is a need for possible regulatory action. The Model Act (or similar legislation or regulation) has been adopted in states where Dental Care Plus does business. The Model Act provides for three levels of regulatory action, varying with the ratio of the insurance company's total adjusted capital (defined as the total of its statutory capital and surplus, asset valuation reserve and certain other adjustments) to its authorized control level risk-based capital ("RBC"):

- If a company's total adjusted capital is less than or equal to 200 percent but greater than 150 percent of its RBC (the "Company Action Level"), the company must submit a comprehensive plan aimed at improving its capital position to the regulatory authority proposing corrective actions.
- If a company's total adjusted capital is less than or equal to 150 percent but greater than 100 percent of its RBC (the "Regulatory Action Level"), the regulatory authority will perform a special examination of the company and issue an order specifying the corrective actions that must be followed.
- If a company's total adjusted capital is less than or equal to 70 percent of its RBC (the "Mandatory Control Level"), the regulatory authority must place the company under its control.

In addition to the levels of regulatory action described above, the regulatory authority may impose restrictions, reporting or other requirements on companies whenever the regulatory authority determines that the financial condition of the company warrants such action, notwithstanding the fact the company meets the requirements of the Model Act. A regulatory authority may also seek an order of the courts placing the company in rehabilitation, liquidation or conservation whenever the regulatory authority determines that the company's financial condition is hazardous, notwithstanding the fact that the company may be in compliance with the requirements of the Model Act.

Dental Care Plus's statutory annual statements for the year ended December 31, 2007 filed with the Ohio Department of Insurance reflected total adjusted capital in excess of Company Action Level RBC.

Federal Regulations

HIPAA Administrative Simplification — The Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) authorized the U.S. Department of Health and Human Services (“HHS”) to adopt a series of regulations designed to simplify the exchange of information electronically between health plans and health care providers and to promote efficiency within the health care industry, as well as to protect the confidentiality and security of individually identifiable health information. Pursuant to this authority, HHS has adopted a series of regulations which are applicable to “Covered Entities,” which include health care providers, health plans and health care clearinghouses (collectively the “HIPAA Regulations”). The HIPAA Regulations adopted to date require Covered Entities to do the following: 1) comply with uniform standards for the electronic exchange of information in certain transactions between health care providers and health plans related to the administration of benefits and payment of claims (“Standard Electronic Transactions Regulations”); 2) adopt certain policies and procedures with respect to the use and disclosure of certain protected health information (“PHI”) created, received or maintained by the Covered Entity, whether in electronic or paper form, and provide individuals with a written notice of how the Covered Entity will use and disclose PHI and of the individual’s rights with respect to PHI (“Privacy Regulations”); 3) adopt certain policies and procedures and implement certain technical safeguards to protect the security of electronic PHI (“Security Regulations”); 4) use certain uniform unique identifiers when conducting transactions with health care providers (“Standard Provider Identifier Regulations”) and employers (“Standard Employer Identifier Regulations”). Covered Entities are currently required to be in compliance with the Standard Electronic Transactions Regulations, the Privacy Regulations, the Security Regulations and the Standard Employer Identifier Regulations. The compliance date for the Standard Provider Identifier Regulations is May 23, 2008.

Enforcement of the HIPAA Regulations is vested in the Office of Civil Rights of HHS, which has the power to investigate compliance and complaints. Sanctions for failing to comply with or for violation of the HIPAA Regulations include criminal penalties of up to \$250,000 per violation and civil sanctions of up to \$25,000 per violation.

Many of the HIPAA Regulations are complex, and requests for regulatory clarification of many aspects are still pending. Additional standards under the Standards Electronic Transactions Regulations are also pending, and additional regulations requiring unique identifiers for other entities, including health plans, may be adopted. Little compliance activity has occurred to date, leaving few official sources of interpretation available beyond the original commentary which accompanied the final HIPAA Regulations. We have, however, made a good faith effort to comply and believe we are in compliance with the requirements of the HIPAA Regulations that are applicable to our subsidiaries as of this date.

GLBA — The Financial Services Modernization Act of 1999 (the “Gramm-Leach-Bliley Act,” or “GLBA”) contains privacy provisions and introduced new controls over the use of an individual’s nonpublic personal data by financial institutions, including insurance companies, insurance agents and brokers licensed by state insurance regulatory authorities. Numerous pieces of federal and state legislation aimed at protecting the privacy of nonpublic personal financial and health information are pending. The privacy provisions of GLBA that became effective in July 2001 require a financial institution to provide written notice of its privacy practices to all of its customers. In addition, a financial institution is required to provide its customers with an opportunity to opt out of certain uses of their non-public personal information. We believe that we are in compliance with the GLBA privacy regulations.

Both GLBA and HIPAA provide that there is no federal preemption of a state’s privacy laws if the state law is more stringent than the privacy rules imposed under GLBA or HIPAA. Pursuant to the authority granted under GLBA to state insurance regulatory authorities to regulate, the National Association of Insurance Commissioners promulgated a new model regulation called Privacy of Consumer Financial and Health Information Regulation, which was adopted by numerous state insurance authorities. As well, there are other pre-existing state laws, including but not limited to insurance regulatory statutes, which were not pre-empted by GLBA or HIPAA and which remain in effect. We believe we are in compliance with state laws governing the privacy of personal financial and health information that are applicable to our subsidiaries, to the extent such laws are not pre-empted by either GLBA or HIPAA.

AVAILABLE INFORMATION

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments to those reports, and other filings with the Securities and Exchange Commission ("SEC") are available on the SEC's website (www.sec.gov). Copies of these documents will be available without charge to any shareholder upon request. Request should be directed in writing to the Company at 100 Crowne Point Place, Sharonville, Ohio 45241. In addition, the public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operations of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

ITEM 1A. RISK FACTORS

If any of the following risks actually occur, our business, financial condition and results of operations could be materially and adversely affected, and the value of our shares could decline. The risks and uncertainties described below are those that we currently believe may materially affect our Company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations.

The market trend of employer groups moving away from dental HMO plans to dental PPO plans may result in a decrease in our dental plan membership and premium revenue.

In the dental benefits industry, there has been a contraction in the dental indemnity product category and the HMO product category, with the membership volume shifting to the dental PPO product category. We have historically limited our product offering to fully-insured and self-insured dental HMO plans. Our HMO plans form the core part of our business and account for approximately 97% of our consolidated revenues. If this market trend continues, we could experience a reduction in the demand for our HMO products, which could lead to a decrease in our membership, premium revenue and net income.

Our business is highly dependent upon a limited number of customers, and the loss of any one such customer could result in a loss of substantial premium revenue.

During 2007, approximately 22% of our fully-insured premium revenue was generated by four employers and approximately 50% of our net self-insured administration and claims revenue was generated by two employers, one of which accounted for in excess of 10% of our consolidated total revenue. If our relationship with any one of these employers were to terminate, our dental membership and the related premium revenue would decrease materially, which could lead to lower net income if we are not able to reduce operating expenses or replace this lost revenue.

A small number of independent brokers source a substantial portion of our business, and the loss of any one such broker could result in a loss of substantial premium revenue.

During 2007, approximately 63% of our business was sourced by five independent brokers, one of which was responsible for sourcing approximately 39% of our business. If our relationship with any of these brokers were to terminate, our premium revenue could decrease materially. As a result, we could experience significant net losses unless we were able to replace this lost revenue or reduce our operating expenses.

Because our premiums are fixed by contract, we are unable to increase our premiums during the contract term if our claims costs exceed our estimates which may reduce our profitability.

Most of our revenues are generated by premiums consisting of fixed monthly payments per subscriber. These payments are fixed by contract, and we are obligated during the contract term, which is generally one year, to provide or arrange for the provisions of dental services. The premiums are not subject to adjustment during the contract term. If our claims costs exceed our estimates, we will be unable to adjust the premiums we receive under our current contracts, which may result in a decrease in our net income.

Our customers' decisions to transition from a fully-insured to a self-insured dental plan or from a self-funded to a fully-insured dental plan could result in lower contribution margins and increased costs.

During 2007, a number of fully-insured dental HMO members shifted to our self-insured dental HMO product. Additionally, a number of self-insured members shifted to our fully-insured dental HMO product. If our customers continue to shift from a fully-insured dental HMO product to a self-insured dental HMO product or vice versa, our dental HMO contribution margin may decrease and we may incur significant transitioning costs.

Claims submitted by dental providers may be fraudulent or duplicative, which may reduce our gross profit margin and net income.

We set our fully-insured premium rates based on an expected level of claims for a twelve-month period. Our calculation of expected claims does not anticipate the payment of fraudulent or duplicate claims. If providers were to submit fraudulent or duplicative claims, our claims cost would increase, and our gross profit margin and net income would be adversely affected.

The financial strength rating assigned to Dental Care Plus may be downgraded, which could result in a loss of employer groups and insurance brokers, which may, in turn, cause our premium revenue to decline.

In July 2004, Dental Care Plus, our largest subsidiary, was given an initial rating of C+ (Marginal) by the A.M. Best Company. A.M. Best assigns a marginal rating to companies that have, in their opinion, a marginal ability to meet their ongoing obligations to policyholders and are financially vulnerable to adverse changes in underwriting and economic conditions. In the fall of 2004, our management met with A.M. Best Company to provide them with a clearer picture of the strategy and operating performance of Dental Care Plus. After this meeting, A.M. Best Company upgraded Dental Care Plus from a C+ (Marginal) rating to a B- (Fair) rating. A.M. Best assigns a fair rating to companies that have, in their opinion, a fair ability to meet their ongoing obligations to policyholders, but are financially vulnerable to adverse changes in underwriting and economic conditions. Our B- (Fair) rating was affirmed in December 2005 and again in March of 2007. Our A.M. Best rating is a measure of our financial strength relative to other insurance companies and is not a recommendation to buy, sell or hold securities. The rating assigned by A.M. Best Company is based, in part, on the ratio of our fully-insured premium revenue to our statutory capital and surplus. If Dental Care Plus continues to experience growth in its fully-insured premium revenue but does not retain enough of its earnings or obtain new sources of capital, the rating assigned to Dental Care Plus may be downgraded.

None of our employer group contracts allows termination in the event our A.M. Best rating is downgraded. If a downgrade were to occur, employer groups may decline to renew their annual or multi-year contract with us, and insurance brokers may refuse to market our dental HMO products. In addition, a downgrade may make it difficult for us to contract with new employer groups and new brokers. The loss of existing employer groups and the loss of insurance brokers may lead to a loss of premium revenue.

If we fail to maintain contracts with an adequate number of dentists, it may be difficult to attract and retain employer groups, which may lead to a loss of premium revenue.

Our business strategy is dependent to a large extent upon our continued maintenance of our dentist networks. Generally, our participating provider contracts allow either party to terminate on limited notice (generally 30 days prior to annual renewal). If we are unable to continue to establish and maintain contracts with an adequate number of dentists in our networks, employer groups may not renew their contracts with us and it may be difficult to attract new employer groups, which may lead to a loss of premium revenue.

We encounter significant competition that may limit our ability to increase or maintain membership in the markets we serve, which may harm our growth and our operating results.

We operate in a highly competitive environment. We compete for employer groups principally on the basis of the size, location and quality of our provider network, benefits provided, quality of service and reputation. A number of these competitive elements are partially dependent upon and can be positively affected by financial

resources available to a dental plan. Many other organizations with which we compete have substantially greater financial and other resources than we do. For example, our competitors include Delta Dental of Ohio, which has an A.M. Best rating of B+ (Very Good) and Delta Dental of Kentucky, which has an A.M. Best rating of B+ (Very Good). In addition, we compete with national insurance carriers such as Metropolitan Life and Guardian, which both have A.M. Best ratings of A+ (Superior). Given the higher ratings and financial strength of many of our competitors, we may encounter difficulty in increasing or maintaining our dental membership in the future.

Our business is heavily regulated by the states in which we do business, and our failure to comply with regulatory requirements could lead to a loss of our authority to do business in such states.

Our business is subject to substantial government regulation, principally under the insurance laws of Ohio, Kentucky and Indiana. We will also become subject to the insurance laws and regulations of other states in which our subsidiaries may in the future conduct business. These laws, which vary from state to state, generally require our subsidiaries to be licensed by the relevant state insurance commission. With respect to our dental HMO products, these laws and regulations also establish operational, financial and other requirements. Dental Care Plus is currently required to maintain a minimum capital and surplus of approximately \$1 million according to the regulations of all three states. The ability of Dental Care Plus to maintain such minimum required capital and surplus is directly dependent on the ability of Dental Care Plus to maintain a profitable business. While Dental Care Plus is currently profitable, there can be no guaranty that it will be profitable in the future. Failure to maintain compliance with the minimum required capital and surplus of each state could result in Dental Care Plus becoming subject to supervision by the Ohio, Kentucky and Indiana insurance regulatory agencies, and could further result in the suspension or revocation of Dental Care Plus's Certificate of Authority in Ohio, Kentucky and Indiana, monetary penalties, or the rehabilitation or liquidation of Dental Care Plus. Insurance Associates, Inc. is required to have one agent licensed in Ohio and Kentucky. Otherwise, none of our dental PPO, dental indemnity or vision PPO business is subject to capital and surplus requirements.

If an event of default occurs under the loan documents we entered into in connection with the purchase of our office building, the entire balance of indebtedness due under these loan documents may become due, which could have an adverse effect on our short-term liquidity and may lead to a downgrade of our financial strength rating.

We are obligated under our mortgage note with an original principal amount of \$1.8 million and an outstanding principal amount of approximately \$1.3 million at December 31, 2007. Under the terms of the note, we are obligated to make principal payments of \$10,000 per month plus interest based on LIBOR plus 1.75% through May 2013, and are obligated to make a balloon payment of \$600,000 in June 2013. It is an event of default under the note if: (1) we fail to make any payment of principal or accrued interest when due, and such nonpayment remains uncured for a period of 10 days, (2) any of our representations or warranties in the note is materially inaccurate or misleading, (3) we fail to observe or perform any other term or condition of the note for a period of 30 days, (4) we dissolve, or merge or consolidate with a third party, or lease or sell a material part of our assets or business to a third party, (5) we fail to submit to the lender current financial information upon request, (6) a lien or other encumbrance becomes attached to our property, (7) in the judgment of the lender, a material adverse change occurs in our existing or prospective financial condition that may affect our ability to repay our obligations, or the lender deems itself insecure, (8) we declare bankruptcy, a bankruptcy petition is filed against us that is not dismissed within 30 days, we make an assignment for the benefit of creditors, we fail to generally pay our debts as such debts become due, or a receiver or similar official is appointed, (9) our nonpayment under any rate management obligation, and (10) we sell or transfer any of the collateral securing the loan, or the collateral securing the loan is destroyed, lost or damaged in any material respect.

It is an event of default under the mortgage if: (1) we fail to maintain hazard, earthquake, flood; business interruption, boiler and machinery or public liability insurance, or any other insurance on the property requested by our lender, (2) we fail to notify our lender of (a) any cancellation, reduction in amount or material change in our insurance coverage, (b) the assertion by any person of the power of eminent domain, (c) the following events: (i) fire causing damage in excess of \$20,000, (ii) receipt of notice of condemnation, (iii) receipt of notice from a governmental authority regarding structure, use or occupancy, (iv) receipt of notice of alleged default from any

holder of a lien or security interest in the property, (v) the commencement of any litigation affecting the property or (vi) the change in any occupancy of the property, (3) any of our representations or warranties under the mortgage are untrue or misleading in any respect, (4) a foreclosure proceeding is instituted with respect to the property, (5) we attempt to limit the loan indebtedness secured by the mortgage, as permitted under Ohio law, (6) any default occurs under any other obligation we may have to the lender, or (7) an event of default occurs under any other loan document. The loan documents provide that if an event of default occurs, the lender may declare the entire balance of the indebtedness immediately due and payable. If we are required to pay the entire balance, our cash would be significantly reduced, which could have an adverse effect on our short-term liquidity. The resulting reduction in our cash on hand could lead to a downgrade in our A.M. Best rating.

A decrease in the working capital and liquidity of our business may have an impact on our ability to meet debt service requirements.

If the working capital of our business were to decrease significantly due to an increase in accounts receivable or the loss of a significant number of employer groups, we may be forced to liquidate portfolio investments in order to meet debt service requirements which would result in a reduction of our investment income. If we were to experience a period of continuing operating losses and working capital were not restored to levels sufficient to meet our debt service requirements, we may need to use surplus cash for debt service, which could result in a material reduction in our capital and surplus balance. If the accounts receivable balances from certain employer groups are greater than 90 days past due, these accounts receivable become non-admitted assets for statutory accounting purposes, leading to a decrease in our capital and surplus balance. If our capital and surplus is lowered materially, the Ohio Department of Insurance may commence adverse regulatory action against us, ranging from requesting corrective action to assuming control of Dental Care Plus, and A.M. Best may consider lowering our financial strength rating.

Our business is highly concentrated in a limited geographic area and adverse economic conditions within the markets in which we do business could impair or reverse our growth trends and have a negative impact on our premium revenue and net income.

The operations of our subsidiaries are concentrated in the Southwestern Ohio, Northern Kentucky and Central Kentucky markets, although our primary operations are in Southwestern Ohio. A regional economic downturn could cause employers to stop offering dental coverage as an employee benefit or elect to offer dental on a voluntary, employee-funded basis as a means to reduce their operating costs. A decrease in employer groups offering dental on an employer sponsored basis could lead to a decrease in our membership, premium revenue and net income.

Dental services utilization by members of our fully-insured dental plans may be higher than expected, resulting in higher than anticipated healthcare services expense and a reduction in our net income.

The fully-insured dental plans offered by Dental Care Plus, our largest subsidiary, are pre-paid by participating employers in amounts based on our actuarial projections that are used to establish premium rates for such plans. As a result, the premiums received by Dental Care Plus from participating employers do not fluctuate based on quantity or cost of services utilized by members. We bear the risk that premiums we have established will not be adequate to cover the cost of services provided to members of our fully-insured dental HMO plan and our related operating expenses.

We engage a licensed consulting actuary to assist us in establishing and adjusting our claims payable liability. We attempt to control the cost of dental services through our provider fee schedule, which we increase from time to time. The ratio of our fully-insured healthcare services expense to fully-insured premium revenue, or healthcare expense ratio ("HER"), can fluctuate between approximately 76% and 80%. Given our selling, general and administrative expense is approximately 19% of our premium revenue, our annual operating income is approximately 1% to 5% of premium revenue. The fluctuation in the HER ratio is primarily due to dental services utilization higher or lower than the level expected by management when the fully-insured premium rates are established. If we see an increase in dental services utilization as we did in 2004, we increase the level of our claims payable liability and record a corresponding increase to healthcare services expense for the current period in order

to ensure that the claims payable liability is adequate given this new level of dental services utilization. Based on our 2007 operating results, a 1% increase in dental services utilization above the anticipated level would translate into an increase in our claims payable liability of approximately \$306,000 and a corresponding increase in healthcare services expense. Accordingly, our pre-tax income would decrease by this amount.

We depend on the services of non-exclusive independent agents and brokers to market our products to employers, and we cannot assure that they will continue to market our products in the future.

We depend on the services of independent agents and brokers to market our dental plans. We do not have long term contracts with independent agents and brokers, who typically are not dedicated exclusively to us and frequently market the dental products of our competitors. We face intense competition for services and allegiance of independent agents and brokers. We cannot assure that our agents and brokers will continue to market our products in a fair and consistent manner.

We will incur significant expenses as a result of being a public company, which will have a negative impact on our financial performance.

We will incur significant legal, accounting, insurance and other expenses on an on-going basis as a result of being a public company. Compliance with securities laws, rules and regulations, including compliance with the Securities Exchange Act of 1934, Section 404 of the Sarbanes-Oxley Act of 2002 and SEC regulations thereunder, cause us to incur significant costs and expenses, including legal and accounting costs, and make some activities more time-consuming and costly. If we are required to engage our independent registered public accounting firm to attest to the effectiveness of our internal controls under Section 404 of the Sarbanes-Oxley Act of 2002 and SEC regulations, then these expenses will negatively impact our net income in 2008 and beyond.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None

ITEM 2. PROPERTIES

We currently maintain our principal place of business at 100 Crowne Point Place, Sharonville, Ohio 45241, which is owned by our wholly-owned subsidiary, Dental Care Plus. We occupy approximately 60% of this property. The remaining amount, approximately 40%, is leased to third party tenants. We believe that our existing facility is adequate to support our business.

ITEM 3. LEGAL PROCEEDINGS

We are not a party to any pending legal proceedings that we believe would, individually or in the aggregate, have a material adverse effect on our financial condition, results of operations or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

EXECUTIVE OFFICERS

Each of our executive officers is appointed to serve a one-year term. Anthony A. Cook is the only executive officer that has an employment agreement with the Company.

The name and age of each of the present officers of the Company follows along with a brief professional biography.

Anthony A. Cook, MS, MBA, 57, President and Chief Executive Officer. Mr. Cook has been President and Chief Executive Officer of Dental Care Plus since February 2001 and, upon reorganization of Dental Care Plus, also assumed this position for the Company. Mr. Cook has over 28 years of management experience in the health care industry. He has HMO experience as a Plan Administrator, the Director of Health Systems for the largest Blue Cross

and Blue Shield HMO in Ohio, as well as the Executive Director of a provider owned health plan. Before arriving at Dental Care Plus, Mr. Cook assisted health care organizations in developing capabilities to succeed in a managed care environment. Mr. Cook has a bachelor's degree in psychology and a master's degree in guidance and counseling from Youngstown State University as well as a Master of Business Administration degree from Baldwin-Wallace College in Cleveland, Ohio.

Robert C. Hodgkins, Jr., CPA, MBA, 48, Vice President — Chief Financial Officer. Mr. Hodgkins has been Vice President-Chief Financial Officer of Dental Care Plus since July 2003 and, upon reorganization of Dental Care Plus, became Vice President-Chief Financial Officer of the Company. Previously, Mr. Hodgkins was a Senior Manager in the Cincinnati office of PriceWaterhouseCoopers LLP, specializing in financial management and consulting to the health care industry from 1997 through 2002. Mr. Hodgkins also was a Director in the Finance Division of Blue Cross Blue Shield of Massachusetts (BCBSMA) from 1995 through 1997. He is a Certified Public Accountant licensed in Ohio and a past President of the Southwestern Ohio Chapter of the Healthcare Financial Management Association. He holds a Bachelor of Science degree in Industrial Engineering from Northwestern University and a Master of Business Administration from the J.L. Kellogg Graduate School of Management at Northwestern.

In addition to the foregoing executive officers, Ann Young is a significant employee of the Company:

Ann Young, 45, Chief Sales and Marketing Officer. Ms. Young has been Chief Sales and Marketing Officer of the Company and Dental Care Plus since October 2004. Prior to joining the Company, Ms. Young managed her own consulting firm, COACHLOGIC, from 2002 to 2004. She was also Senior Vice President of sales and marketing at Emerald Health Network in Cleveland, Ohio from 1999 to 2002 and Vice President of National Sales at The Chandler Group from 1991 to 1998. Ms. Young is a graduate of Kent State University and holds dual degrees in psychology and business administration. She is an active member of the International Coach Federation, the International Association of Coaching, and the Greater Cincinnati Professional Coaches Association.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSURER PURCHASES OF EQUITY SECURITIES

Market for Redeemable Common Shares

There is no established public trading market for the Class A Redeemable Common Shares or Class B Redeemable Common Shares. In addition, there are significant restrictions contained in the Company's Code of Regulations on the ability to transfer the Class A and Class B Redeemable Common Shares.

Holders

As of December 31, 2007, there were 653 holders of Class A Redeemable Common Shares and 665 holders of Class B Redeemable Common Shares.

Dividend Policy

We have not declared or paid cash dividends. We currently expect to retain any future earnings for use in the operation and expansion of our business and do not anticipate paying cash dividends on our Class A Redeemable Common Shares or Class B Redeemable Common Shares.

See Item 12 under PART III for securities authorized for issuance under equity compensation plans.

Recent sales of unregistered securities

In November 2007, the Company sold 10 Class B redeemable common shares to one participating dentist at a price of \$584.40 per share, the book value of a redeemable common share at October 31, 2007. In December of 2007, the Company sold one Class A redeemable common share and 48 Class B redeemable common shares to two participating dentists at a price of \$602.61 per share, the book value of a redeemable common share at November 30,

2007. The securities were sold in a private placement exempt from registration under the Securities Act of 1933, as amended, (the "Act") pursuant to Section 4(2) of the Act and Regulation D. The private placement is being made using a confidential private placement memorandum only to participating dentists or retired participating dentists in one of the Company's dental plans.

Performance of Redeemable Common Shares

Pursuant to our Code of Regulations the Company's redeemable common shares are sold and repurchased by the Company at book value. The book value of the Company's redeemable common share were approximately \$601, \$532, \$518, \$461, and \$400 at December 31, 2007, 2006, 2005, 2004, and 2003, respectively.

Purchases of Equity Securities

We repurchased and retired three Class A Redeemable Common Shares and 57 Class B Redeemable Common Shares during the three months ended December 31, as follows:

Period	Total Class A Shares Purchased	Total Class B Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 —					
October 31, 2007	0	24(a)	\$547.93	0	N/A
November 1 —					
November 30, 2007	0	0	N/A	0	N/A
December 1 —					
December 31, 2007	3(a)	33(a)	\$602.61	0	N/A

(a) Repurchased from provider shareholder retirees in accordance with the Company's obligations under its Amended and Restated Code of Regulations.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial information for the Company and its subsidiaries for the periods indicated. The financial information for the period prior to July 2, 2004 relates solely to Dental Care Plus. The financial information should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this registration statement.

(All amounts in thousands, except earnings per Redeemable Common Share.)

	2007	2006	2005	2004	2003
Premium revenue	\$59,950(1)	\$51,587	\$44,857(2)	\$39,400(3)	\$35,810
Investment income	269	198	104	32	31
Other income	94	305	221	158	122
Net income on redeemable common shares	604	103	467	518	810
Total assets	12,285	12,799	12,250(4)	9,688	9,158(5)
Long-term obligations	1,576	1,631	1,889	1,675	1,620(5)
Cash dividends declared	—	—	—	—	—
Basic earnings per redeemable common share	\$ 72.88	\$ 12.59	\$ 55.14	\$ 60.90	\$ 97.55
Diluted earnings per redeemable common share	\$ 72.50	\$ 12.59	\$ 55.14	\$ 60.90	\$ 97.55

- (1) Includes a \$838 increase in fully-insured dental HMO revenue and a \$6,283 increase in self-insured dental HMO revenue.
- (2) Includes approximately \$1,237 from acquisition of Adenta, Inc. in June of 2005.
- (3) The Company reorganized into a holding company structure in July of 2004 and Insurance Associates Plus, Inc. was formed in August of 2004.
- (4) Total assets increased to approximately \$12,250 in 2005 from approximately \$9,668 in 2004 due to an increase in membership in our dental HMO segments and the addition of the Adenta tangible and intangible assets.
- (5) In 2003, the Company acquired its headquarters building and incurred approximately \$1,800 of indebtedness in connection with such acquisition.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Headquartered in Cincinnati, Ohio, Dental Care Plus Group offers to employer groups of all sizes dental HMO, dental PPO, dental indemnity and vision PPO benefit plans and related services. As of December 31, 2007, we had approximately 245,000 members in our dental and vision benefit programs with 1,972 dentists participating in our networks of providers.

We manage our business with three segments, fully-insured dental HMO, self-insured dental HMO, and corporate, all other. Corporate, All Other consists primarily of certain corporate activities and three additional product lines: DentaSelect PPO, DentaPremier indemnity and Vision Care Plus PPO. Our dental HMO products and all of our other product lines are marketed to employer groups. We identified our segments in accordance with the aggregation provisions of Statement of Financial Accounting Standards ("SFAS") 131 "Disclosures About Segments of an Enterprise and Related Information" which is consistent with information used by our Chief Executive Officer in managing our business. The segment information aggregates products with similar economic characteristics. These characteristics include the nature of customer groups and pricing, benefits and underwriting requirements.

The results of our fully-insured and self-insured HMO segments are measured by gross profit. We do not measure the results of our Corporate, All Other segment. We do not allocate selling, general and administrative expenses, investment and other income, interest expense, or other assets or liabilities to our fully-insured and self-insured segments. These items are retained in our Corporate, All Other segment. Our segments do not share overhead costs and assets. We do, however, measure the contributions of each of our fully-insured and self-insured segments to costs retained in our Corporate, All Other segment.

Many factors have an impact on our results, but most notably our results are influenced by our ability to establish and maintain a competitive and efficient cost structure and to accurately and consistently establish competitive premiums, ASO fees, and plan benefit levels that are commensurate with our dental and administrative costs. Dental costs are subject to a high rate of inflation due to many forces, including new higher priced technologies and dental procedures, new dental service techniques and therapies, an aging population, lifestyle challenges including obesity and smoking, the tort liability system, and government regulations.

Profitability Strategy

Our strategy to drive profitability focuses on providing solutions for employers to the rising cost of dental care through leveraging our growing networks of participating dentists and deploying a variety of products that give employer groups and members more choices than only our dental HMO plans. Additionally, we have increased the diversification of our membership base, not only through our newer products, but also by entering new geographic territories. While we expect our dental PPO and indemnity products to be important drivers of growth in the years ahead, we expect to migrate a substantial number of members from those products to our flagship Dental Care Plus HMO products.

In our markets, there has been limited growth in recent years in the number of individuals enrolled in dental benefit plans. However, there has been a shift of membership out of the more expensive dental indemnity products into the dental PPO products that offer both less expensive in-network benefits and out-of-network benefits as well. At the same time, members have migrated away from dental HMO products with very limited provider networks. While these dental HMO products are the least expensive, employers and members have focused their attention on the dental PPO products that offer broad provider access with the cost control associated within a contracted provider network for the in-network portion of the dental services rendered.

In our original eight county service area, our dental HMO provider network includes approximately 90% of the dental providers in the market. In that market our dental HMO provides the broad provider access of a dental PPO along with effective utilization and cost control features. Because of the broad provider network, our fully-insured dental HMO is priced higher than other dental HMOs and has premium rates more equivalent to competitor dental PPOs.

We have experienced steady growth in membership and revenue in both the fully-insured and self-insured dental HMO product during the last five years. We attribute this growth to our broad provider network, competitive premium rates for our fully-insured business and ASO fees for our self-insured business, and our commitment to providing outstanding customer service to all of our constituencies (employer groups, members, insurance brokers, and dentists).

Healthcare services expense has increased for both the fully-insured dental HMO segment and the self-insured dental HMO segment. We have increased our provider fee schedule at the beginning of each of the last five years; these fee schedule increases contribute to an increase in the healthcare services expense on a per member per month basis.

The introduction of the DentaPremier dental indemnity product in 2003 created new business opportunities for us with employer groups in our original eight county service area. The introduction of the DentaSelect dental PPO product has been instrumental to our new sales in the Dayton, Ohio and Central Kentucky markets.

Selling, general and administrative expenses increased significantly in 2005, 2006 and 2007 in connection with our expansion into Dayton, Ohio and Central Kentucky with new dental indemnity and dental PPO products and the Adenta product. We also incurred additional expenses in 2005 preparing to implement the new dental benefits administration and billing system that became operational in February of 2006.

Other important factors that have an impact on our profitability are both the competitive pricing environment and market conditions. With respect to pricing, there is a tradeoff between sustaining or increasing underwriting margins versus increasing or decreasing enrollment. With respect to market conditions, economies of scale have an impact on our administrative overhead. As a result of a decline in preference for tightly-managed dental HMO products, dental costs have become increasingly comparable among our larger competitors. Product design and consumer involvement have become more important drivers of dental services consumption, and administrative expense efficiency is becoming a more significant driver of margin sustainability. Consequently, we continually evaluate our administrative expense structure and attempt to realize administrative expense savings through productivity gains.

Highlights

- Our dental and vision products grew by approximately 28,300 members, or 13.1%, from 216,700 members at December 31, 2006 to 245,000 members at December 31, 2007. This membership increase included approximately 6,300 members from sales primarily related to our new DentaSelect PPO offering.

We intend for the discussion of our financial condition and results of operations that follows to assist in the understanding of our financial statements and related changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain critical accounting principles and estimates have an impact on our financial statements.

Comparison of Results of Operations for 2007 and 2006

The following chart shows membership totals and revenues and expenses for our three business segments for the years ended December 31, 2007 and 2006 (in thousands, except for membership data and percentage change):

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Membership:			
Fully-insured DHMO	133,700	137,100	(2.5)%
Self-insured DHMO	84,300	62,500	34.9%
Corporate, All Other	<u>27,000</u>	<u>17,100</u>	<u>57.9%</u>
Total membership	<u>245,000</u>	<u>216,700</u>	<u>13.1%</u>
Premium revenue:			
Fully-insured DHMO	\$ 38,496	\$ 37,658	2.2%
Self-insured DHMO	19,768	13,485	46.6%
Corporate, All Other	<u>1,686</u>	<u>444</u>	<u>279.7%</u>
Total premium revenue	<u>59,950</u>	<u>51,587</u>	<u>16.2%</u>
Healthcare service expense:			
Fully-insured DHMO	30,236	30,178	0.2%
Self-insured DHMO	16,916	11,808	43.3%
Corporate, All Other	<u>1,001</u>	<u>40</u>	<u>2402.5%</u>
Total healthcare service expense	<u>48,153</u>	<u>42,026</u>	<u>14.6%</u>
Selling, general & administrative expenses:			
Corporate, All Other	<u>11,149</u>	<u>9,755</u>	<u>14.3%</u>
Investment income:			
Corporate, All Other	<u>269</u>	<u>198</u>	<u>35.9%</u>
Other income:			
Corporate, All Other	<u>94</u>	<u>305</u>	<u>(69.2)%</u>
Interest expense:			
Corporate, All Other	<u>(95)</u>	<u>(121)</u>	<u>(21.5)%</u>
Income tax expense:			
Corporate, All Other	<u>313</u>	<u>86</u>	<u>264.0%</u>

Summary

Net income available for redeemable common shares was approximately \$604,000 and \$103,000 for the years ended December 31, 2007 and 2006, respectively. Basic earnings per redeemable common shares was \$72.88 and \$12.59 at December 31, 2007 and 2006, respectively. The increase in net income on available for redeemable common shares primarily resulted from a decrease in total healthcare services expense as a percentage of total premium revenue from 81.5% in 2006 to 80.3% in 2007 and offset by increased selling, general and administrative expenses.

Membership

Our fully-insured dental HMO membership decreased approximately 3,400 members, or 2.5%, from 137,100 at December 31, 2006 to 133,700 at December 31, 2007. This membership decrease is attributable to the reduction of approximately 14,900 fully-insured dental HMO members due to the conversion of two employer group membership from our fully-insured dental HMO product to our self-insured dental HMO product effective July 1, 2007, offset by new fully-insured dental HMO sales in the Cincinnati/Northern Kentucky market of approximately

14,000 members. In addition, fully-insured dental HMO membership decreased by an additional 2,500 members due to a limited number of employer groups that did not renew their contracts with Dental Care Plus in the last 12 months.

Our self-insured dental HMO membership increased by approximately 21,800 members, or 34.9%, from approximately 62,500 members at December 31, 2006 to approximately 84,300 members at December 31, 2007 primarily due to the conversion of 14,900 members of two employer groups from our fully-insured dental HMO product to our self-insured dental HMO product effective July 1, 2007. The remaining 6,900 member increase was the result of our adding a number of large new self-insured groups in Southwestern Ohio and Northern Kentucky.

Corporate, All Other membership increased by approximately 9,900 members, or 57.9%, from approximately 17,100 members at December 31, 2006 to approximately 27,000 members at December 31, 2007. Dental indemnity membership increased by approximately 1,100 members, or 29.7%, from approximately 3,700 members at December 31, 2006 to approximately 4,800 members as of December 31, 2007. These dental indemnity members represent in-area members whose dentists are outside of the Dental Care Plus provider network and out-of-area members for employer groups based in Ohio and Kentucky. Our ability to offer dental indemnity coverage has allowed us to sell dental benefits to employer groups that want access to out-of-network providers in our market areas and employer groups with out-of-area employees. Fully-insured dental PPO membership increased by approximately 6,400 members, or 71.9%, from approximately 8,900 members at December 31, 2006 to approximately 15,300 members at December 31, 2007. Approximately 5,600 members fully-insured dental PPO members converted from the Adenta dental product. Fully-insured vision membership increased by approximately 2,400 members, or 53.3%, from approximately 4,500 members at December 31, 2006 to approximately 6,900 members at December 31, 2007. Except for approximately 6,100 Dental Care Plus dental PPO members and approximately 800 Dental Care Plus dental indemnity members at December 31, 2007, the fully-insured dental indemnity, dental PPO and vision products are all underwritten by third party insurance carriers.

Revenue

Fully-insured dental HMO premium revenue increased approximately \$838,000, or 2.2%, in 2007 as compared to 2006. Approximately \$652,000 of this premium revenue increase is attributable to net membership volume increases in the dental HMO product line. Approximately \$554,000 of this premium revenue increase is associated with dental HMO premium rate increases negotiated with employer groups at their annual renewals. These increases were offset by a decrease in Adenta premium revenue of approximately \$368,000 during 2007 as the Adenta membership transferred to our dental PPO product or to another dental carrier.

Total self-insured revenue increased approximately \$6,283,000, or 46.6%, from approximately \$13,485,000 in 2006 to approximately \$19,768,000 in 2007. This increase is attributable to the 34.9% increase in self-insured HMO membership, an increase in self-insured ASO fee rates and a provider fee schedule increase implemented at the beginning of 2007 that contributed to the 6.0% increase in self-insured claim revenue on a per member per month basis. The self-insured segment revenue has two components:

Self-Insured Claim Revenue — Self-insured claim revenue increased approximately \$5,970,000, or 46.8%, from approximately \$12,754,000 in 2006 to approximately \$18,724,000 in 2007. This increase is due to the 34.9% increase in self-insured dental HMO membership along with a 6.0% increase in self-insured claim revenue on a per member per month basis in 2007 as compared to 2006.

Self-Insured ASO Fees — Self-insured ASO fees increased approximately \$313,000, or 42.8%, from approximately \$731,000 in 2006 to approximately \$1,044,000 in 2007. These increases are primarily attributable to the 34.9% increase in self-insured HMO membership and a significant increase in the average self-insured ASO fee rates. We provide access to our Dental Care Plus provider network for an administrative fee, generally to self-insured groups. Our ASO fee revenue is recognized monthly when earned and is normally based on annual contracts with the self-insured groups.

Corporate, All Other premium revenue is derived from our fully-insured dental indemnity product, our fully-insured dental PPO products and our fully-insured vision product. In aggregate, Corporate, All Other premium

revenue increased by approximately \$1,242,000, or 279.7%, from approximately \$444,000 in 2006 to approximately \$1,686,000 in 2007.

During the first nine months of 2007, the dental indemnity product was underwritten by a third party insurance carrier and we were paid a portion of its premium in the form of administrative fees that cover our related costs and broker commissions. These dental indemnity administrative fees were approximately \$124,000 for the years ended December 31, 2006 and 2007. The majority of the dental indemnity product is now underwritten by Dental Care Plus. In the fourth quarter of 2007, our fully-insured dental indemnity premium was approximately \$274,000.

Our fully-insured dental PPO premium revenue increased by \$879,000, or 406.9%, from approximately \$216,000 in 2006 to approximately \$1,095,000 in 2007. The DCP fully-insured dental PPO was introduced in the third quarter of 2006. In 2006, the Company entered into a quota share group dental reinsurance agreement with a third party insurance company. The third party insurance company has agreed to indemnify DCP relative to its share of the insurance risk. This group dental reinsurance agreement applies to certain group dental PPO policies underwritten by DCP in our expansion markets. The fully-insured PPO premium revenue for the portion retained by DCP increased by approximately \$860,000, from approximately \$53,000 in 2006 to approximately \$913,000 in 2007.

Our other dental PPO product is underwritten by third party insurance carriers and we are paid a portion of its premium in the form of administrative fees that cover our related costs and broker commissions. These dental PPO administrative fees increased by approximately \$18,000, or 11.0%, from approximately \$164,000 in 2006 to approximately \$182,000 in 2007.

In addition, our fully-insured vision product is underwritten by a third party insurance carrier and we are paid a portion of its premium in the form of administrative fees that cover our related costs and broker commissions. These vision product administrative fees increased by approximately \$65,000, or 66.3%, from approximately \$98,000 in 2006 to approximately \$163,000 in 2007.

Healthcare Service Expenses

Fully-insured healthcare services expense increased approximately \$58,000, or 0.2%, from approximately \$30,178,000 in 2006 to approximately \$30,236,000 in 2007. This increase is primarily attributable to the provider fee schedule increase implemented at the beginning of 2007 offset by the 2.5% decrease in fully-insured dental membership in 2007. On a per member per month basis, fully-insured healthcare services expense decreased by 1.5% in 2007 compared to 2006. Given the fee schedule increase effective January 1, 2007, there was a slight decrease in utilization on a per member per month basis and a less expensive mix of services provided in 2007 compared to 2006 primarily due to the shift of two employer groups with higher than average healthcare services expense on a per-member-per-month basis out of the fully-insured product line. The fully-insured healthcare services expense attributable to the Adenta membership was approximately \$245,000 for 2006. There was no healthcare services expense attributable to Adenta membership in the 2007.

Self-insured healthcare services expense increased approximately \$5,108,000, or 43.3%, from approximately \$11,808,000 in 2006 to approximately \$16,916,000 in 2007. This increase is attributable to both the 34.9% increase in self-insured dental HMO membership, the provider fee schedule increase implemented at the beginning of 2007, and the shift of the two employer groups with higher than average healthcare services expense on a per-member-per-month basis into the self-insured product line.

Corporate, All Other healthcare services expense is limited to the healthcare services expense related to the fully-insured Dental Care Plus dental PPO product that was introduced in the third quarter of 2006 and the fully-insured Dental Care Plus dental indemnity product that was introduced in the fourth quarter of 2007. The fully-insured Dental Care Plus dental PPO healthcare services expense for the portion of the risk retained by DCP increased by approximately \$718,000, from approximately \$40,000 in 2006 to approximately \$758,000 in 2007. The fully-insured Dental Care Plus dental indemnity healthcare services expense increased by approximately \$243,000, from \$0 in 2006 to approximately \$243,000 in 2007. Because our other dental indemnity, dental PPO and vision PPO products are underwritten by third party insurance carriers, we do not recognize any premium revenue or healthcare services expense associated with these products.

Reinsurance

In the normal course of business, the Company cedes portions of its written premium revenue. As such, the Company limits its loss exposure to that portion of the insurable risk that it retains. Dental insurance premium ceded was approximately \$228,000 in 2007. The healthcare services expense ceded was approximately \$189,000 in 2007. As of December 31, 2007 the Company has approximately \$26,500 of reinsurance recoverable and prepaid reinsurance premium net of reinsurance payable, which is included in accounts receivable.

Selling, General and Administrative Expenses

Consolidated selling, general and administrative, or SG&A, expenses increased approximately \$1,394,000, or 14.3%, from approximately \$9,755,000 in 2006 to approximately \$11,149,000 in 2007. Total SG&A expenses as a percentage of total premium revenue, or SG&A expense ratio, was 18.6% for 2007, decreasing 30 basis points from the 2006 ratio of 18.9%. Salaries and benefits increased by approximately \$649,000 due to the addition of sales & marketing and provider relations staff for the expansion in the Dayton, Louisville and Lexington markets as well as additional operational and finance staff to support our expanded activities. Commissions expense increased approximately \$525,000 due to the increases in membership and the fact that the prevailing commission rates in the Kentucky markets are higher than the prevailing rates in Southwestern Ohio. Depreciation and amortization expense for 2007 decreased approximately \$211,000, or 34.2%, compared to 2006. These decreases were due primarily to a decrease in the amortization of the identifiable assets acquired in the acquisition of Adenta after the write down of the intangible asset associated with the Adenta network lease contract with Humana Dental in July of 2006. In 2007, board of directors expense increased approximately \$180,000, or 52.3%, from approximately \$344,000 in 2006 to approximately \$524,000 in 2007 as a result of director compensation increases and additional board committee meetings. The remaining amount of approximately \$251,000 is due to various operating expense increases in 2007 as compared to 2006.

Financial Statements and Exhibits

Investment Income

Investment income increased approximately \$71,000, or 35.9%, from approximately \$198,000 in 2006 to approximately \$269,000 in 2007. This increase is primarily attributable to a shift of funds from short term to higher yield long term investments, higher interest bearing cash balances, and an increase in prevailing interest rates during 2007.

Other Income

Other income decreased approximately \$211,000, or 69.2% in 2007 as compared to 2006. Dental provider network leasing revenue decreased approximately \$185,000 in 2007 from approximately \$213,000 in 2006 to approximately \$28,000 in 2007 primarily due to the loss of the revenue associated with the Humana provider network lease with Adenta that was terminated in the third quarter of 2006. Rental revenue earned from leasing a portion of the office building owned by our subsidiary Dental Care Plus decreased by approximately \$34,000, or 37.0%, from approximately \$92,000 in 2006 to approximately \$58,000 in 2007 due to a vacancy in a portion of the office building in 2007.

Interest Expense

Interest expense decreased \$26,000, or 21.5%, from approximately \$121,000 in 2006 to approximately \$95,000 in 2007. The decrease is primarily attributable to a decrease in the interest expense associated with our capital lease and mortgage obligations as these obligation decreased.

Income Taxes

Our effective tax rate for 2007 of 34.1% decreased 11.4% compared to the 45.5% effective tax rate in 2006. Our 2007 effective tax rate is lower than the federal statutory rate due to a decrease in applicable state and local taxes, release of the FIN 48 reserve due to settlement of state income taxes and the elimination of certain non-deductible reorganization costs associated with acquiring the Dental Care Plus Life Insurance license that were no longer applicable during 2007.

See Note 6 to the consolidated financial statements included in Item 8- Financial Statements and Supplementary Data for a complete reconciliation of the federal statutory rate to the effective tax rate.

Comparison of Results of Operations for 2006 and 2005

The following chart shows membership totals and revenues and expenses for our three business segments for the years ended December 31, 2006 and 2005 (in thousands, except for membership data and percentage change):

	<u>2006</u>	<u>2005</u>	<u>Change</u>
Membership:			
Fully-insured DHMO	137,100	137,000	0.0%
Self-insured DHMO	62,500	46,000	35.9%
Corporate, All Other	<u>17,100</u>	<u>6,100</u>	<u>180.3%</u>
Total membership	<u>216,700</u>	<u>189,100</u>	<u>14.6%</u>
Premium revenue:			
Fully-insured DHMO	\$ 37,658	\$ 34,688	8.6%
Self-insured DHMO	13,485	10,044	34.3%
Corporate, All Other	<u>444</u>	<u>125</u>	<u>255.2%</u>
Total premium revenue	<u>51,587</u>	<u>44,857</u>	<u>15.0%</u>
Healthcare service expense:			
Fully-insured DHMO	30,178	27,681	9.0%
Self-insured DHMO	11,808	8,568	37.8%
Corporate, All Other	<u>40</u>	<u>0</u>	<u>100.0%</u>
Total healthcare service expense	<u>42,026</u>	<u>36,249</u>	<u>15.9%</u>
Selling, general & administrative expenses:			
Corporate, All Other	<u>9,755</u>	<u>8,016</u>	<u>21.7%</u>
Investment income:			
Corporate, All Other	<u>198</u>	<u>104</u>	<u>90.4%</u>
Other income:			
Corporate, All Other	<u>305</u>	<u>221</u>	<u>38.0%</u>
Interest expense:			
Corporate, All Other	<u>(121)</u>	<u>(129)</u>	<u>(6.2)%</u>
Income tax expense:			
Corporate, All Other	<u>86</u>	<u>321</u>	<u>(73.2)%</u>

Summary

Net income on redeemable common shares was approximately \$103,000, or \$12.59 per redeemable common share, in 2006 compared to approximately \$467,000, or \$55.14 per redeemable common share, in 2005. The decrease in net income on redeemable common shares primarily resulted from increased healthcare services expense and increased selling, general and administrative expenses associated with becoming an Exchange Act reporting company.

Membership

Our fully-insured dental HMO membership remained relatively constant in 2006 as compared to 2005. As of December 31, 2006 and 2005, we had approximately 137,100 and 137,000 fully-insured members, respectively.

Self-insured dental HMO membership increased by approximately 16,500 members, or 35.9%. The increase is primarily the result of one new self-insured dental HMO employer group obtained in July 2006 with approximately 10,000 members.

Corporate all other, membership increased by approximately 11,000 members, or 180.3%. The increase is primarily attributable to the increase membership in our dental PPO product from approximately 2,400 members at December 31, 2005 to 8,900 members at December 31, 2006. Dental indemnity membership increased 36.8%, to approximately 3,700 members at December 31, 2006 from approximately 2,600 members at December 31, 2005. The dental indemnity members represent the out-of-area members for employer groups based in Ohio and Kentucky. The remaining increase is attributed to an increase in the membership in the fully-insured Vision Care Plus product from approximately 1,100 at December 31, 2005 to approximately 4,500 at December 31, 2006. Except for approximately 1,000 Dental Care Plus dental PPO members at December 31, 2006, the dental indemnity product, the dental PPO product and the fully-insured vision product are all underwritten by third party insurance carriers.

Revenue

Fully-insured dental HMO premium revenue increased approximately \$3.0 million, or 8.6%, in 2006 as compared to 2005. This premium revenue increase is attributable a shift of membership volume from the Adenta dental HMO product to the Dental Care Plus dental HMO product with higher premium rates and increases in negotiated premium rates with employer groups at their annual renewals.

Total self-insured revenue increased approximately \$3.4 million, or 34.3%, in 2006 as compared to 2005. This increase is attributable to the 35.9% increase in self-insured HMO membership and a provider fee schedule increase implemented at the beginning of 2006. The self-insured segment revenue has two components:

Self-insured Claim Revenue — Self-insured claim revenue increased approximately \$3.2 million, or 34.4% in 2006 as compared to 2005 is due to increased self-insured dental HMO membership along with a fee schedule increase implemented in 2006.

Self-insured ASO Fees — Self-insured ASO fees increased approximately \$176,000, or 31.8% in 2006 as compared to 2005. This increase is primarily attributable to the 35.9% increase in self-insured HMO membership and is also attributable to a slight increase in average ASO fee rates. We provide access to our Dental Care Plus provider network for an administrative fee, generally to self-insured groups. Our ASO fee revenue is recognized monthly when earned and is normally based on annual contracts with the self-insured groups.

Corporate, All Other premium revenue is derived from our administrative fees related to our dental indemnity, dental PPO and vision products that are underwritten by third party insurance carriers, as well as premium revenue from our dental PPO product underwritten by Dental Care Plus. As of September 2006, we began offering the Dental Care Plus dental PPO in Kentucky only; the Dental Care Plus dental PPO premium accounts for approximately \$53,000 of this revenue increase in 2006. The remaining dental and vision products are underwritten by third party insurance carriers. We are paid a portion of premium in the form of administrative fees that cover our administrative costs, brokers commissions, and profit. These administrative fees increased in 2006 by approximately \$266,000 or 213.2%.

Healthcare Service Expenses

Fully-insured healthcare services expense increased approximately \$2.5 million, or 9.0%, in 2006 as compared to 2005. This increase is attributable to both the increase in dental HMO membership and the provider fee schedule increase implemented at the beginning of 2006. Member utilization remained relatively constant between 2005 and 2006.

Self-insured healthcare services expense increased approximately \$3.2 million or 37.8%, in 2006 as compared to 2005. This increase is attributable to both the increase in self-insured dental HMO membership and the provider fee schedule increase implemented at the beginning of 2006. Member utilization remained relatively constant between 2005 and 2006.

Corporate, All Other healthcare services expense was approximately \$40,000 for the Dental Care Plus dental PPO product that was introduced in September of 2006. Because our other dental indemnity, dental PPO and vision

PPO products are underwritten by third party insurance carriers, we do not recognize any premium revenue or healthcare services expense associated with these products.

Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses increased approximately \$1.7 million, or 21.7%, in 2006 as compared to 2005. Salaries and benefits increased by approximately \$420,000 due to the addition of sales & marketing and provider relations staff for the expansion in the Dayton, Louisville and Lexington markets as well as additional operational and finance staff to support our expanded activities. Commissions expense increased approximately \$326,000 due to the increases in membership and the fact that the prevailing commission rates in the Kentucky markets are higher than the prevailing rates in Southwestern Ohio. Professional services expense increased approximately \$291,000, or 35.5%. This increase was primarily due to the an increase in legal and accounting expense associated with becoming a SEC reporting company. Depreciation and amortization expense increased approximately \$301,000, or 95.6%, to approximately \$616,000 in 2006 from approximately \$315,000 in 2005. This increase was due to the amortization of the identifiable assets acquired in the acquisition of Adenta. Amortization recorded in 2006 includes an impairment charge recorded in July of approximately \$128,000 to eliminate the remaining balance associated with the Humana Dental network lease agreement intangible asset. See Note 3 of the consolidated financial statements included in Item 8. In 2006, computer maintenance expensed increased approximately \$108,000 due to the monthly service agreement for the new dental administration software that was implemented in February 2006. Board of Directors fees increased approximately \$115,000 as a result of the new DCP Holding Company Deferred Compensation Plan as well as an additional director added in 2006. The remaining amount of approximately \$139,000 is due to various operating expense increases in 2006 as compared to 2005.

Financial Statements and Exhibits

Investment Income

Investment income increased approximately \$94,000, or 90.4%, in 2006 as compared to 2005. This increase is primarily attributable to a shift of funds from short term to higher yield long term investments, higher interest bearing cash balances, and an increase in prevailing interest rates.

Other Income

Other income increased approximately \$84,000, or 38.0%, in 2006 as compared to 2005. Dental provider network leasing revenue increased approximately \$68,000 in 2006 from approximately \$145,000 in 2005 to approximately \$213,000 in 2006 primarily due to the revenue associated with the acquisition of Adenta. The increase of Other revenue also contributed to the increase. Other revenue includes rental revenue earned from leasing a portion of the office building owned by our subsidiary Dental Care Plus.

Interest Expense

Interest expense decreased \$8,000, or 6.2%, to approximately \$121,000 in 2006 from approximately \$129,000 in 2005. The decrease is primarily attributable to the interest expense associated with the reduction of our capital lease obligation related to dental administration software.

Income Taxes

Our effective tax rate for 2006 of 45.5% increased 4.8% compared to the 40.7% effective tax rate in 2005. Our 2006 effective tax rate is higher than the federal statutory rate due to applicable state and local taxes and certain non-deductible reorganization costs associated with acquiring the Dental Care Plus Life Insurance license. See Note 6 to the consolidated financial statements included in Item 8- Financial Statements and Supplementary Data for a complete reconciliation of the federal statutory rate to the effective tax rate.

Liquidity and Capital Resources and changes in Financial Condition

Our primary sources of cash are premiums, ASO fees, investment and other income, as well as the proceeds from the sale or maturity of our investment securities and from borrowings. Our primary uses of cash include disbursements for claims payments, selling, general and administrative expenses, interest expense, taxes, purchases of investment securities, capital expenditures, acquisitions, and payments on borrowings. Because premiums are collected in advance of claims payments, our business should normally produce positive cash flows during a period of increasing enrollment. Conversely, cash flows would be negatively impacted during a period of shrinking enrollment. Cash decreased approximately \$700,000, or 11.3%, for the year ended December 31, 2007 to approximately \$5.5 million at December 31, 2007 from approximately \$6.2 million at December 31, 2006. Cash increased approximately \$600,000 or 10.7%, to approximately \$6.2 million at December 31, 2006 from approximately \$5.6 million at December 31, 2005. The change in cash for the years ended December 31, 2006, 2005 and 2004 is summarized as follows (in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net cash (used in) provided by operating activities	\$(398)	\$1,399	\$2,021
Net cash used in investing activities	(126)	(285)	(301)
Net cash used in financing activities	(182)	(519)	(395)
Increase (decrease) in cash	<u>\$(706)</u>	<u>\$ 595</u>	<u>\$1,324</u>

Cash flow from Operating Activities

In 2007, we used approximately \$398,000 of cash in operating activities. We realized net income of approximately \$604,000. In addition to our 2007 net income, we recognized depreciation and amortization of approximately \$405,000. Other sources of cash include: increases in our unearned premium, accounts payable and other accrued expenses, deferred compensation and federal income tax payable liabilities totaling approximately \$590,000. These sources of operating cash were offset by a decrease in our claims payable liability of approximately \$1.5 million due to the payments to dental providers on December 31, 2007 that reduced our inventory of reported claims in process, increases in accounts receivable, prepaid expenses and other assets totaling approximately \$353,000, and deferred income taxes of approximately \$144,000.

In 2006, we generated approximately \$1.4 million of cash by operating activities and realized net income of approximately \$103,000. The decrease in net cash provided by operating activities of approximately \$622,000 is primarily due to a decrease in net income in 2006 as compared to 2005. Continued growth of approximately \$100,000 and an increase in the provider withhold payable in the amount of \$600,000 account for the increase in claims payable of approximately \$700,000 from approximately \$3.3 million at December 31, 2005 to approximately \$4.0 million at December 31, 2006. In addition, our growth in 2006, contributed to an increase in accounts payable, accrued expenses and other liabilities totaling approximately \$538,000. Non-cash depreciation and amortization expense was approximately \$615,000. These increases in cash provided by operating activities were offset by an increase in account receivable and other assets and a decrease in unearned premium totaling approximately \$484,000.

In 2005, we generated approximately \$2.0 million of cash by operating activities and realized net income of approximately \$467,000. Continued growth and the Adenta acquisition led to an increase in claims payable of approximately \$419,000, an increase in accounts payable and accrued expense of approximately \$625,000 and an increase in unearned premium of approximately \$260,000. These increases in current liabilities resulted in a corresponding increase in our cash balances. In addition, non-cash depreciation and amortization increased to approximately \$315,000 in 2005.

Cash flow from Investing Activities

In 2007, we invested approximately \$137,000 in building improvements, office equipment and computer equipment. Also in 2007, approximately \$1.2 million of our investments matured, and we reinvested the proceeds in additional investments.

In 2006, we invested approximately \$160,000 in building improvements, office equipment and computer equipment. During 2006, we completed the required net asset valuation analysis for the Adenta acquisition in 2005, and the Company and the representatives of the former Adenta shareholders negotiated an agreement whereby the former Adenta shareholders were paid an additional cash consideration of \$25,000. Also in 2006, we invested an additional \$100,000 of our excess cash in FDIC insured bank certificates of deposits in order to earn higher interest rate yields.

In 2005, we invested approximately \$80,000 in building improvements, office equipment and computer equipment. In June of 2005, we acquired all of the outstanding common stock of Adenta for \$250,000 plus the assumption of approximately \$242,000 in interest bearing debt. With the acquisition of Adenta we obtained cash balances of approximately \$280,000 and paid acquisition related transaction costs of approximately \$47,000. Accordingly, the net cash used relative to the Adenta acquisition was approximately \$17,000. Also in 2005, we invested an additional \$200,000 of our excess cash in FDIC insured bank certificates of deposits and U.S. government security money market funds in order to earn higher interest rate yields. Thus, the total cash used in investing activities was approximately \$301,000 in 2005. This amount was approximately \$1.8 million less than the cash used in investing activities in 2004 primarily because our initial investment of approximately \$1.6 million in FDIC insured bank certificates of deposit.

Cash flow from Financing Activities

In 2007, we paid \$120,000 of our outstanding mortgage balance, approximately \$210,000 in capital lease payments for our dental administration software, and approximately \$55,000 of the principal balance of the Adenta debt assumed in 2005. During 2006, we repurchased redeemable common shares with a value of approximately \$62,000, which was offset by the issuance of redeemable commons shares with a value of approximately \$266,000. There were no new financing commitments executed in 2007.

In 2006, we paid \$120,000 of our outstanding mortgage balance, \$171,000 in capital lease payments for our dental administration software, and \$95,000 of the principal balance of the Adenta debt assumed in 2005. During 2006, we repurchased redeemable common shares with a value of approximately \$141,000, which was partially offset by the issuance of redeemable commons shares with a value of approximately \$35,000. There were no new financing commitments executed in 2006.

In 2005, we refinanced approximately \$190,000 of debt we assumed in the acquisition of Adenta under more favorable terms and conditions with a commercial bank in Ohio. We also paid \$120,000 of our outstanding mortgage balance, \$171,000 in capital lease payments for our new dental administration software, and \$92,000 of the principal balance of the assumed Adenta debt. This represents a total payment of approximately \$383,000 in debt and capital lease obligations in 2005.

Our mortgage note matures in June 2013. The note requires us to make principal payments of \$10,000 per month, and bears interest at a variable rate of 30-day LIBOR plus 1.75%.

Provider Withhold Payments

In most cases, the fees of our participating providers for covered dental services under the dental HMO are subject to a 10% withhold by us. Accordingly, our dental HMO network providers are paid 90% of the agreed fees for covered services as set forth on applicable fee schedule. The amounts withheld are not retained in a separate fund and we have no obligation to pay any portion of the amounts withheld to the providers. The dental providers have no vested rights in the amounts withheld unless our Board of Directors authorizes any amounts withheld to be paid to the providers, and then vesting is only to the extent of such amounts authorized to be paid. Once authorized for payment by the Board, such amounts are recorded as claims payable liabilities until paid.

In December of each year our Board evaluates the projected pre-tax income of our dental HMO plans, capital and surplus requirements prescribed by the Ohio Department of Insurance and factors impacting our A.M. Best financial strength rating, such as the ratio of our projected fully-insured premium revenue to our projected capital and surplus level. In addition, the Board considers the capital expenditures needed to support strategic objectives for the coming years (such as the implementation of the new dental plan administration system, expansion of office

space and acquisition of office equipment for new employees) and our estimated federal income tax liability. After considering these and any other factors deemed relevant, the Board determines the amount of the provider withhold that may be paid to participating dental providers, if any. Each participating dental provider's share of the provider withhold payment is based on the proportionate amount of claims submitted by such participating dental provider in relation to the total claims submitted by all participating dental providers in a given year, expressed as a percentage, and is not related to or dependent upon any such provider's holdings of shares in the Company. Payments authorized by the Board are accrued in the fourth quarter of the fiscal year. The Board authorized amounts of return of withhold amounting to \$650,000 and \$900,000 for the years ended December 31, 2007 and 2006, respectively. In 2005, the Board authorized amounts of return of withhold totaling approximately \$610,000 that consisted of \$300,000 with respect to amounts withheld in 2005 and 2004, and approximately \$310,000 with respect to amounts withheld in 2003.

Based on historical experience, the Board may authorize an aggregate provider withhold payment between 0% and 45% of the approximate \$5.5 million provider withhold expected for 2008, or a maximum of \$2.5 million. We also expect that the Board may authorize aggregate provider withhold payments for calendar years 2009 through 2011 in amounts between 0% and 45% of the total provider withhold amounts for those years and that the level of provider withhold payments for 2009 through 2011 could be greater than 45% depending upon the Company's performance. However, the Board will not authorize an aggregate provider withhold payment for any year that would result in an operating loss for the year in review. These forecasted amounts are based on projections of future claims revenues and certain planning assumptions and estimates currently being made with respect to future application of the factors historically considered by the Board in making its determination to authorize the payment of withhold amounts. These planning assumptions reflect management's current expectations and views about future events and are subject to risks, uncertainties and other factors that could cause actual withhold payment amounts to differ materially from these stated assumptions. Important factors that could cause actual results to differ materially from those being planned for, include, among others: claims exceeding or not meeting our estimates, a threatened or actual downgrade in our financial strength rating, the loss of a significant customer or broker, the loss of a large employer group and an unexpected increase or decrease in dental service utilization by our dental members.

Contractual Obligations and Other Commitments

A summary of our future commitments as of December 31, 2007 is as follows:

<u>Contractual Obligations</u>	<u>Less than 1 Year</u>	<u>1-3 Years</u>	<u>3-5 Years</u>	<u>More than 5 Years</u>	<u>Total</u>
Long-term debt and interest(1)	\$ 238,771	\$436,643	\$383,203	\$689,040	\$1,747,657
Capital lease and interest	232,213	19,350	—	—	251,563
Operating Leases	165,712	307,372	31,023	—	504,107
Claims Payable	2,490,251	—	—	—	2,490,251
Total	<u>\$3,126,947</u>	<u>\$763,365</u>	<u>\$414,226</u>	<u>\$689,040</u>	<u>\$4,993,578</u>

- (1) Our swap interest payments are based on a fixed rate of 4.95%. We estimate that we will receive swap interest payments totaling approximately \$212,000 based on a variable rate of LIBOR plus 1.75% or 6.07%, as of December 31, 2007.

Off-balance sheet Arrangements

At December 31, 2007, future approximate minimum annual lease payments under noncancellable operating leases are as follows: 2008 — \$166,000; 2009 — \$159,000; 2010 — \$148,000, and 2011 — \$31,000.

Financial Condition

Our consolidated cash and short term investments were approximately \$6.4 million at December 31, 2007. Our consolidated cash and short term investments decreased by approximately \$900,000 from approximately \$7.3 million as of December 31, 2006.

This decrease in cash and short term investments from December 31, 2006 to December 31, 2007 is primarily due to the cash used in operating, investing and financing activities of approximately \$398,000, \$126,000 and \$182,000, respectively. In addition to this decrease in cash and short term investments of approximately \$706,000, there was a shift of approximately \$200,000 in FDIC insured certificate of deposit investment from short term investments to long term investments during this period.

On January 3, 2006 we entered into an agreement with Fifth Third Bank for a \$500,000 working capital line of credit. Interest was payable based on the prime borrowing rate of 7.25% at December 31, 2007. The Company did not have any interest expense for the line of credit in 2007 and paid \$158 in 2006. As of December 31, 2007 and 2006 there was no amount outstanding on the line of credit.

Together our cash, short term investments and working capital line of credit we believe are sufficient to meet our short term and long term liquidity needs. In the short term, we are obligated to make payments related to our contractual obligations such as our building mortgage, computer system capital lease, and our operating leases and other commitments (see contractual obligations and other commitments). In the long term, we will continue to be obligated to make payments related to our contractual obligations delineated above. We will also be obligated in certain circumstances to repurchase the redeemable shares of our provider shareholders who die, are permanently disabled, or retire. Our Board of Directors establishes limitations on the amount of share redemptions each year. While we are not able to estimate future redeemable common share redemptions, we repurchased approximately \$62,000, \$141,000, and \$12,000 worth of redeemable common shares in the years ended December 31, 2007, 2006 and 2005, respectively. We believe our cash balances, investment securities, operating cash flows, and borrowing capacity, taken together, provide adequate resources to fund ongoing operating and regulatory requirements and fund future expansion opportunities and capital expenditures in the foreseeable future.

We operate as a holding company in a highly regulated industry. We are primarily dependent upon management fees that we receive from our subsidiaries. We receive over 97% of our management fees from our subsidiary Dental Care Plus. We also receive dividends from our subsidiaries from time to time. The dividends from our subsidiary, Dental Care Plus, are subject to regulatory restrictions.

Regulatory RBC Requirements

Our largest subsidiary, Dental Care Plus operates in states that regulate its payment of dividends and debt service on inter-company loans, as well as other inter-company cash transfers and require minimum levels of equity as well as limit investments to approved securities. The amount of dividends that may be paid by Dental Care Plus, without prior approval by state regulatory authorities, is limited based on statutory income and statutory capital and surplus. Prior notification must be provided to state agencies in Ohio, Kentucky and Indiana before paying a dividend even if approval is not required.

On December 18, 2006, the Ohio Department of Insurance approved Dental Care Plus, Inc.'s application for a life and health insurance license. As an Ohio-domiciled insurance company dually licensed as a life and health insurer and a specialty health insuring corporation, Dental Care Plus is now able to underwrite dental indemnity, dental PPO, dental HMO, and vision benefit products as well as other life and health oriented products in Ohio. Accordingly, the required capital and surplus for Dental Care Plus licensed as a life and health insurance company in Ohio was \$2.5 million at December 31, 2007.

We maintained aggregate statutory capital and surplus of approximately \$4.7 million as of December 31, 2007 and were in compliance with applicable statutory requirements. Although the minimum required levels of equity are largely based on premium volume, product mix, and the quality of assets held, minimum requirements can vary significantly from state to state. Given our anticipated premium growth in 2008 resulting from the expansion of our networks and membership, capital requirements will increase. We expect to fund these increased requirements

through the retention of earnings, investment in Dental Care Plus of the earnings of other subsidiaries and capital raised in future redeemable common and preferred share offerings.

Most states rely on risk-based capital requirements, or RBC, to define the required levels of equity. RBC is a model developed by the National Association of Insurance Commissioners to monitor an entity's solvency. This calculation indicates recommended minimum levels of required capital and surplus and signals regulatory measures should actual surplus fall below these recommended levels. RBC has been adopted by Ohio, Kentucky and Indiana, the three states in which we currently do business. We file our annual statement and RBC reporting with the Ohio Department of Insurance and the NAIC.

Other Matters

The differences between our net income and comprehensive income include the changes in the unrealized gains or losses on marketable securities and changes in the fair value of our interest rate swap agreement. For the years ended December 31, 2007, 2006 and 2005, respectively, such changes increased or (decreased), net of related income tax effects, by the following amounts:

	For Years Ended December 31,		
	2007	2006	2005
Changes in:			
Unrealized gain (loss) on investments	\$ 5,030	\$ 554	\$(5,233)
Increase (decrease) in fair value of interest rate swap	(30,096)	(3,953)	15,429
Total	<u>\$(25,066)</u>	<u>\$(3,399)</u>	<u>\$10,196</u>

Net unrealized investment gains in marketable securities (net of income tax effects) were \$5,030 in the year ended December 31, 2007. Net unrealized investment losses in marketable securities (net of income tax effects) were \$554 in the year ended December 31, 2006.

The fair market value of the variable to fixed interest rate swap contract (net of income tax effects) decreased by \$30,096 in year ended December 31, 2007 due to a decrease in prevailing interest rates during 2007. The fair market value of the variable to fixed interest rate swap contract (net of income tax effects) decreased by \$3,953 in year ended December 31, 2006 due to a decrease in expected future interest rates during 2006. The fair market value of the variable to fixed interest rate swap contract was \$27,009, \$72,609 and \$78,599 at December 31, 2007, 2006 and 2005, respectively and is included in other assets.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Application of those accounting principles includes the use of estimates and assumptions that are made by management, and that we believe are reasonable based on the information available. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses in the accompanying consolidated financial statements. We believe the most critical accounting policies used to prepare the accompanying consolidated financial statements are the following:

Investments

We have classified all of our investments as "available-for-sale." Accordingly, investments are carried at fair value, based on quoted market prices, and unrealized gains and losses, net of applicable income taxes, are reported in a separate caption of stockholders' equity. We invest our excess cash in FDIC insured bank certificates of deposit and U.S. government security money market funds. Each certificate of deposit with an original cost of \$100,000 is invested with a separate FDIC-insured financial institution. The quoted market prices of these certificates of deposit are the amounts we would receive if we liquidated them prior to maturity. We conduct periodic reviews of individual portfolio holdings that have a market value less than their respective carrying value to identify other-than-temporary impairments. As of December 31, 2007, there were no other-than-temporary impairments. In the event there was an unrealized loss on an investment that we believed to be other than temporary, the loss would be reported in the

statement of operations, instead of in a separate caption of stockholders' equity. The Company maintains its cash in bank deposit accounts, which at times exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant risks with respect to its cash.

Accounts Receivable

Accounts receivable represent uncollected premiums related to coverage periods prior to the balance sheet date, and are stated at the estimated collectible amounts, net of an allowance for bad debts. We regularly monitor the timing and amount of our premium collections, and maintain a reserve for estimated bad debt losses. The amount of the reserve is based primarily on our historical experience and any customer-specific collection issues that are identified.

Goodwill and Intangible Assets

Goodwill arises in business combinations when the purchase price of assets acquired exceeds the appraised value. As with tangible and other intangible assets, periodic impairment reviews are required, at least annually, as well as when events or circumstances change. Management uses judgment in assessing goodwill for impairment. We review the recorded value of our goodwill annually or sooner if events or changes in circumstances indicate that the carrying amount may exceed fair value. The review for impairment requires management to predict the estimated cash flows that will be generated by the long-lived asset over its remaining estimated useful life. Considerable judgment must be exercised in determining future cash flows and their timing and, possibly, choosing business value comparables or selecting discount rates to be used in any value computations.

Business acquisitions often result in recording intangible assets. Intangible assets are recognized at the time of an acquisition, based upon their fair value. Similar to long-lived tangible assets, intangible assets are subject to amortization and periodic impairment reviews whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As with tangible assets, considerable judgment must be exercised.

Liability for Claims Payable

Our estimated liability for claims payable and corresponding healthcare service expense includes claims incurred but not reported ("IBNR"), claims reported but not yet processed and paid and other healthcare services expenses incurred, including estimated costs of processing outstanding claims and actual amounts of accrued but unpaid payments in respect of our Dental Care Plus provider withhold which have been authorized by our Board of Directors. Our estimated liability for claims payable is based primarily on the average historical lag time between the date of service and the date the related claim is paid, taking into account recent trends in payment rates and the average number of incurred claims per covered individual in the most recent 12 month period.

The following table shows our total claims payable liability for the periods indicated and its three components. IBNR represents a substantial portion of our claims payable liability.

	<u>2007</u>		<u>2006</u>	
IBNR	\$1,185,541	47.6%	\$1,514,963	38.0%
Reported claims in process	609,890	24.5%	1,501,508	37.7%
Other healthcare services expenses payable	<u>694,820</u>	<u>27.9%</u>	<u>971,120</u>	<u>24.3%</u>
Total claims payable liability	<u>\$2,490,251</u>	<u>100%</u>	<u>\$3,987,591</u>	<u>100%</u>

At December 31, 2007, our estimated total claims payable liability included approximately \$2.5 million for Dental Care Plus, comprised of IBNR of approximately \$1.2 million and reported claims in process of approximately \$610,000. Other healthcare services expenses at December 31, 2007 included approximately \$45,000 for the estimated cost of processing outstanding claims and an accrued but unpaid provider withhold payment of \$650,000. The provider withhold liability was recognized in December 2007 when it was authorized by our Board of Directors.

At December 31, 2006, our estimated total claims payable liability included approximately \$4.0 million for Dental Care Plus, comprised of IBNR of approximately \$1.5 million and reported claims in process of approximately \$1.5 million. Other healthcare services expenses at December 31, 2006 included approximately \$71,000 for the estimated cost of processing outstanding claims and an accrued but unpaid provider withhold payment of \$900,000. The provider withhold liability was recognized in December 2006 when it was authorized by our Board of Directors.

Between December 31, 2006 and December 31, 2007, our IBNR estimate decreased by approximately \$329,000 or 21.7%, primarily due to a fully-insured membership decrease of 2.5%, a slight decrease in utilization on a per member per month basis and a less expensive mix of services provided in 2007 compared to 2006 primarily due to the shift of two employer groups with higher than average healthcare services expense on a per-member-per-month basis out of the fully-insured product line. Reported claims in process decreased by approximately \$892,000, or 59.4%, from December 31, 2005 to December 31, 2006 due to a decrease in the number of days of reported claims in process from 14 days at December 31, 2006 to 4 days at December 31, 2007. The number of days of reported claims in process at year end varies with the timing of our bi-weekly provider claim payment cycle. In 2007, we had a bi-weekly claim payment to providers on December 31, 2007 that cleared out the majority of the reported claims in process at year end. Other healthcare services expense payable decreased by approximately \$276,000, primarily due to the fact that the unpaid provider withhold payment of \$650,000 at December 31, 2007 that was authorized by our Board of Directors in December of 2007 was \$250,000 less than the comparable unpaid provider withhold amount of \$900,000 at December 31, 2006.

IBNR and Reported Claims in Process Estimates

We estimate liabilities for both IBNR and reported claims in process by employing actuarial methods that are commonly used by health insurance actuaries and meet actuarial standards of practice. These actuarial standards of practice require that claim liabilities estimates be adequate under moderately adverse circumstances. The Company's consulting actuary assists us in making these estimates.

Since our liability for claims payable is based on actuarial estimates, the amount of claims eventually paid for services provided prior to the balance sheet date could differ from the estimated liability. Any such differences are recognized in the consolidated statement of income for the period in which the differences are identified.

We develop our estimate for claims payable liability using actuarial methodologies and assumptions, primarily based on historical claim payments and claim receipt patterns, as well as historical dental cost trends. Depending on the period for which incurred claims are estimated, we apply a different method in determining our estimate. For periods prior to the most recent month, we calculate a "completion factor" which indicates the percentage of claims payable estimated for a prior period that have been paid as of the end of the current reporting period. We use the completion factor to determine historical patterns over a rolling 12-month period, made consistent period over period by making adjustments for known changes in claim inventory levels and known changes in claim payment processes. For the most recent month, we calculate a "claims trend factor" that estimates incurred claims primarily from a trend analysis based upon per member per month claims trends developed from our historical experience in the preceding months, adjusted for known provider contracting changes, changes in benefit levels and seasonality.

We have not changed the key actuarial methodologies and assumptions used by management to estimate the IBNR and reported claims in process components of our claims payable liability during the periods presented, and management has not adjusted any of the key methodologies and assumptions used in calculating the most recent estimate of the IBNR and reported claims in process components of our claims payable liability.

The table set forth below illustrates how our operating results are impacted when there is a variance between estimated claims expense and actual claims expense. The table shows the sensitivity of the estimated fully-insured incurred claims payable liability to fluctuations in the expected completion factors and claims trend factors that were used to estimate the claims payable liability as of December 31, 2007 within variance ranges historically experienced.

Completion Factor (a)			Claims Trend Factor(b)		
(Decrease) Increase In Factor	Estimated Claims Payable Liability as of 12/31/2007		(Decrease) Increase In Factor		Estimated Claims Payable Liability as of 12/31/2007
(0.25)%		2,566,251	(1)%		2,468,251
0% (estimate used)		2,490,251	0% (estimate used)		2,490,251
0.25%		2,434,251	1%		2,512,251

- (a) Reflects estimated potential changes in incurred claims payable liability caused by changes in completion factors for months prior to the most recent month.
- (b) Reflects estimated potential changes in incurred claims payable liability caused by annualized claims trend used for the estimation of the per member per month incurred claims for the most recent month.

Based on historical experience, the completion factors we use to estimate outstanding IBNR and reported claims in process are highly reliable for predicting actual claims paid at future times, with a variance range of approximately one-quarter of one percent, plus or minus. The claims trend factors we use to estimate outstanding IBNR and reported claims in process for the most recent month are somewhat less reliable based on historical experience, with a variance range of approximately one percent, plus or minus. We have found that the estimated claims trend factor can be higher or lower than what the paid claims data indicates with the passage of time primarily because of factors beyond our control, such as the level of utilization of services by dental members and the expected and actual mix of the types of services received by dental members.

Provider Withhold Payments

We do not estimate an accrued liability on a quarterly basis for provider withhold payments because we have no obligation to pay any portion of the amount withheld to the providers and providers have no vested rights in the amounts withheld unless our Board of Directors authorizes a payment to them. Our Board makes a decision annually in December as to whether or not to authorize any payment in respect of the withhold amount for the current year at which time the Company records a liability for the authorized withhold amount. Given the uncertainties associated with the factors considered by the Board and the discretionary nature of these payments, we are not able to estimate the liability for provider withhold payments prior to Board authorization. The actual amount authorized by our Board for payment to the providers is added to the accrued liability for claims payable in the month the authorization occurs.

The amount of the annual provider withhold payment authorized by our Board varies from year to year depending on, among other factors deemed relevant from time to time, the amount of pre-tax income projected for the year then ending, our estimated income tax liability for the year, the amount of retained earnings needed to satisfy the risk-based capital requirements of the Ohio Department of Insurance, factors impacting our financial strength rating with A.M. Best, such as the ratio of our projected fully-insured premium revenue to our projected capital and surplus level, and the amount of capital needed for anticipated future capital expenditures.

The annual provider withhold payment authorized by the Board is recorded in December of the applicable year, resulting in a corresponding increase of claims expense and claims payable liability. Depending on the amount of the provider withhold payment authorized, there may be a material increase in the claims payable liability at year end. At December 31, 2007, our claims payable liability increased by approximately 35% after recording the \$650,000 provider withhold payment authorized by the Board. Safeguarding the financial condition and liquidity of the Company is a material factor considered in the provider withhold payment practices adopted by the Board.

Redeemable Common Shares

The Company's Class A and Class B redeemable common shares are owned by participating providers and Company directors. Only participating providers in the original eight county area are eligible to own Class A voting redeemable common shares (See Note 10). All participating providers, Company directors and Company employees are eligible to own the Class B non-voting redeemable common shares. As of December 31, 2005 to comply

with the requirements of EITF D-98, the Company changed its reporting related to its redeemable common shares as a result of becoming a Securities and Exchange Commission registrant. The Company's Class A and Class B common shares are now considered to be redeemable common shares due to the fact that the shareholders have the option to require the Company to repurchase these shares upon their death, permanent disability or retirement. The Company now records Class A and Class B common shares as Redeemable Common Shares in the consolidated balance sheet outside of permanent shareholders' equity at the redemption value of the common shares. Accordingly, the Company records any net income (loss) or other comprehensive income (loss) that formerly was recorded as a change to retained earnings as a change to the redemption value of the Redeemable Common Shares to accrete the carrying value of the Redeemable Common Shares to the redemption value at the end of each reporting period. Under this method, the end of the reporting period is treated as if it were also the redemption date for the security.

Recognition of Premium Revenue

Premium revenue is recognized in the period during which dental or vision coverage is provided to the covered individuals. Payments received from customers in advance of the related period of coverage are reflected on the accompanying consolidated balance sheet as unearned premium revenue.

Healthcare Services Expense

Healthcare services expense is recognized on a monthly basis. In the case of the fully-insured dental HMO segment, healthcare services expense is calculated by taking the paid claims associated with the fully-insured membership and adjusting this amount for the change in the claims payable liability determined using the actuarial estimates discussed above. For the self-insured dental HMO segment, the healthcare services expense is based solely on the paid claims for the self-insured membership. We deduct a provider withhold from the claim payments to providers equal to 10% of the allowed amount according to the provider fee schedule. At the end of each year, our Board of Directors determines, in its sole discretion, how much if any of the provider withhold can be paid out to participating providers. Provider withhold payments authorized by our Board during the fiscal year are recorded as an increase to healthcare services expense.

Income Taxes

Our accounting for income taxes is in accordance with SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that are recognized in our financial statements in different periods than those in which the events are recognized in our tax returns. The measurement of deferred tax liabilities and assets is based on current tax laws as of the balance sheet date. We record a valuation allowance related to deferred tax assets in the event that available evidence indicates that the future tax benefits related to deferred tax assets may not be realized. A valuation allowance is required when it is more likely than not that the deferred tax assets will not be realized. Our determination of whether a valuation allowance is required is subject to change based on future estimates of the recoverability of our net deferred tax assets.

Effective January 1, 2007 the Company adopted FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes". FIN 48 is an interpretation of SFAS No. 109. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

New Accounting Standards

In September 2006, SFAS No. 157, "Fair Value Measurements", was issued. This statement provides a new definition of fair value that serves to replace and unify old fair value definitions so that consistency on the definition is achieved, and the definition provided acts as a modification of the current accounting presumption that a transaction price of an asset or liability equals its initial fair value. The statement also provides a fair value hierarchy

used to classify source information used in fair value measurements that places higher importance on market based sources. New disclosures of assets and liabilities measured at fair value based on their level in the fair value hierarchy are required by this statement. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Two FASB Staff Positions on SFAS No. 157 were subsequently issued. On February 12, 2007, FSP No. 157-2 delayed the effective date of this SFAS No. 157 for non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. This FSP is effective for fiscal years beginning after November 15, 2008. On February 14, 2007, FSP No. 157-1 excluded SFAS No. 13 Accounting for Leases and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under FASB No. 13. However, this scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value under FASB Statement No. 141, Business Combinations or FASB No. 141R, Business Combinations. This FSP is effective upon initial adoption of SFAS No. 157. The Company is currently evaluating the impact of adopting SFAS No. 157 on its consolidated financial position, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115". SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with few exceptions. SFAS 159 also establishes presentation and disclosure requirements to facilitate comparisons between companies that choose different measurement attributes for similar assets and liabilities. The requirements of SFAS No. 159 will be effective for the Company beginning January 1, 2008. The Company does not expect SFAS No. 159 to have a material effect on our results of operations or financial position.

In December 2007, the FASB issued SFAS No. 141 (revised), "Business Combinations". SFAS No. 141(R) changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for preacquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, except for certain tax adjustments for prior business combinations. Accordingly, we will adopt this statement on January 1, 2009. The Company is evaluating the effect SFAS No. 141(R) will have on our consolidated financial position and results of operations.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51". SFAS No. 160 changes the accounting for noncontrolling (minority) interests in consolidated financial statements including the requirements to classify noncontrolling interests as a component of consolidated stockholders' equity, and the elimination of "minority interest" accounting in results of operations with earnings attributable to noncontrolling interests reported as part of consolidated earnings. Additionally, SFAS 160 revises the accounting for both increases and decreases in a parent's controlling ownership interest. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. Accordingly, we will adopt this statement on January 1, 2009. The Company does not expect the adoption of SFAS No. 160 to have a material impact on our consolidated financial position or results of operations.

Impact of Inflation

We do not consider the impact of the changes in prices due to inflation to be material in the analysis of our overall operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk that we will incur investment losses or increased interest expense due to adverse changes in market rates and prices. Our market risk exposures are substantially related to our investment portfolio and the

impact of interest rate changes on these securities. In addition, interest rate changes can impact future interest expense for debt obligations that have a variable rate of interest associated with them.

At December 31, 2007, our investment portfolio consisted solely of FDIC insured bank certificates of deposit and U.S. government security mutual funds. We have evaluated the impact on the fixed maturity portfolio's fair value considering an immediate 100 basis point change in interest rates. A 100 basis point increase in interest rates would result in an approximate \$17,339 decrease in fair value, whereas a 100 basis point decrease in interest rates would result in an approximate \$17,714 increase in fair value. While the certificates of deposit with a cost of \$1.9 million December 31, 2007 are all classified as available for sale, our practice has been to hold these certificates of deposit to their maturity dates, thus avoiding the realization of any unrealized losses associated with these investments due to recent interest rate increases.

At December 31, 2007, we had a mortgage note with a bank with an outstanding principal balance of \$1.3 million with a variable rate based on LIBOR plus 1.75%. However, in June of 2003 we entered into a variable to fixed interest rate swap contract that effectively eliminated the interest rate risk exposure on all but \$300,000 of the outstanding loan principal. Management estimates that a 100 basis point increase in interest rates would decrease our annual pre-tax earnings by \$3,000 vis a vis the note.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of DCP Holding Company:

We have audited the accompanying consolidated balance sheets of DCP Holding Company and subsidiaries (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedules included in Item 15(a)2. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, in 2005 the Company changed its reporting for redeemable common shares as a result of becoming a Securities and Exchange Commission registrant.

As discussed in Note 8, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, on January 1, 2006 and, as discussed in Note 1, the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007.

/s/ Deloitte & Touche LLP

Cincinnati, OH
March 24, 2008

DCP HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31, 2007 and 2006

	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,517,908	\$ 6,223,757
Short-term investments at fair value, cost of \$858,000 and \$1,100,000 at December 31, 2007 and 2006, respectively	857,848	1,096,721
Accounts receivable, net of allowance of \$3,499 and \$37,403 at December 31, 2007 and 2006, respectively	587,380	406,507
Prepaid expense, deposits, and other	240,797	141,103
Deferred income tax, current	142,429	75,881
Total current assets	7,346,362	7,943,969
INVESTMENTS	1,109,683	796,189
PROPERTY, PLANT, AND EQUIPMENT:		
Land	364,000	364,000
Building and building improvements	2,236,866	2,221,171
Furniture and equipment	1,925,481	1,885,238
Total property, plant, and equipment	4,526,347	4,470,409
Less accumulated depreciation	(1,583,009)	(1,274,733)
Total property, plant, and equipment — net	2,943,338	3,195,676
INTANGIBLE ASSETS, Net of accumulated amortization of \$51,000 and \$36,000 at December 31, 2007 and 2006, respectively.	188,532	203,880
GOODWILL	136,355	136,355
DEFERRED INCOME TAX, NON-CURRENT	101,375	11,355
OTHER ASSETS	459,586	511,910
TOTAL ASSETS	<u>\$12,285,231</u>	<u>\$12,799,334</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term obligations	\$ 343,624	\$ 385,902
Claims payable	2,490,251	3,987,591
Accounts payable and accrued expenses	1,917,966	1,811,349
Unearned premium revenue	666,411	587,963
Federal income tax payable	137,497	19,238
Other current liabilities	62,644	50,753
Total current liabilities	5,618,393	6,842,796
LONG TERM LIABILITIES:		
Mortgage loan payable	1,140,000	1,260,000
Capital lease obligation	19,253	242,877
Deferred compensation	416,374	127,670
Total long-term liabilities	1,575,627	1,630,547
TOTAL LIABILITIES	7,194,020	8,473,343
COMMITMENTS AND CONTINGENCIES (Note 13).		
REDEEMABLE COMMON SHARES:		
Class A, Redeemable Common Shares, no par value — authorized, 7,500 shares; issued and outstanding, 653 and 681 at December 31, 2007 and 2006, respectively	392,603	362,853
Class B Redeemable Common Shares, no par value — authorized, 100,000 shares; issued and outstanding, 7,815 and 7,438 at December 31, 2007 and 2006, respectively	4,698,608	3,963,138
Total redeemable common shares	5,091,211	4,325,991
SHAREHOLDERS' EQUITY — Preferred Shares; no par value — authorized, 100,000 shares; issued, none		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$12,285,231</u>	<u>\$12,799,334</u>

See notes to consolidated financial statements.

DCP HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For Each of the Three Years in the Period Ended December 31, 2007

	<u>2007</u>	<u>2006</u>	<u>2005</u>
PREMIUM REVENUE	\$59,949,897	\$51,587,458	\$44,857,237
EXPENSES:			
Healthcare services expense (including shareholder healthcare service expense of \$38,941,000, \$36,972,000, and \$33,476,000 in 2007, 2006, and 2005, respectively)	48,152,505	42,025,929	36,249,406
Selling, general and administrative expenses	11,149,023	9,755,183	8,016,078
Total expenses	59,301,528	51,781,112	44,265,484
OPERATING (LOSS) INCOME	648,369	(193,654)	591,753
NON-OPERATING INCOME (EXPENSE):			
Investment income	269,343	198,380	104,214
Other income	94,012	305,437	221,339
Interest expense	(94,652)	(121,200)	(129,373)
Net non-operating income	268,703	382,617	196,180
INCOME BEFORE INCOME TAX	917,072	188,963	787,933
PROVISION (BENEFIT) FOR INCOME TAX:			
Current	456,244	139,190	329,028
Deferred	(143,657)	(53,168)	(8,197)
Total	312,587	86,022	320,831
NET INCOME ON REDEEMABLE COMMON SHARES	<u>\$ 604,485</u>	<u>\$ 102,941</u>	<u>\$ 467,102</u>
BASIC EARNINGS PER REDEEMABLE COMMON SHARE	<u>\$ 72.88</u>	<u>\$ 12.59</u>	<u>\$ 55.14</u>
DILUTED EARNINGS PER REDEEMABLE COMMON SHARE	<u>\$ 72.50</u>	<u>\$ 12.59</u>	<u>\$ 55.14</u>

Share figures reflect the effects of a 5 for 1 stock dividend effective to shareholders of record on August 31, 2005.

See notes to consolidated financial statements.

DCP HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For Each of the Three Years in the Period Ended December 31, 2007

	Redeemable Common Shares				Shareholders Equity			
	Class A		Class B		Retained Earnings	Other Accumulated Comprehensive Income	Total	Comprehensive Income
	Number of Shares	Amount	Number of Shares	Amount				
BALANCE — December 31, 2004	708	\$ 1,958,940	7,788	\$1,958,940				
Stock split (See Note 10)		(1,632,463)		1,632,463				
Net income					\$ 467,102		\$ 467,102	\$467,102
Change in fair value of interest rate swap (net of income tax of \$7,949)						\$ 15,429	15,429	15,429
Unrealized loss on investments (net of income tax benefit of \$2,699)						(5,233)	(5,233)	(5,233)
Total comprehensive income								<u>\$477,298</u>
Class A Common Shares exchanged for Class B Common Shares	(14)	(2,242)	14	2,242				
Common shares repurchased and retired	(3)	(1,036)	(33)	(11,395)				
Accretion of common shares to redemption value		34,777		442,521	(467,102)	(10,196)	(477,298)	
BALANCE — December 31, 2005	691	357,976	7,769	4,024,771				
Net income					102,941		102,941	\$102,941
Change in fair value of interest rate swap (net of income tax benefit of \$2,037)						(3,953)	(3,953)	(3,953)
Unrealized gain on investments (net of income tax of \$289)						554	554	554
Total comprehensive income								<u>\$ 99,542</u>
Class B Common Shares issued			61	35,022				
Class A Common Shares exchanged for Class B Common Shares	(3)	(1,555)	3	1,555				
Common shares repurchased and retired	(7)	(3,436)	(395)	(187,884)				
Accretion of common shares to redemption value		9,868		89,674	(102,941)	3,399	(99,542)	
BALANCE — December 31, 2006	681	362,853	7,438	3,963,138				
Net income					604,485		604,485	\$604,485
Change in fair value of interest rate swap (net of income tax benefit of \$15,504)						(30,096)	(30,096)	(30,096)
Unrealized gain on investments (net of income tax of \$2,591)						5,030	5,030	5,030
Total comprehensive income								<u>\$579,419</u>
Cumulative effect of change in accounting principle (FIN 48)					(5,997)			
Class A and B Common Shares issued	1	603	490	265,260				
Class A Common Shares exchanged for Class B Common Shares	(20)	(10,527)	20	10,527				
Common shares repurchased and retired	(9)	(4,644)	(133)	(69,421)				
Accretion of common shares to redemption value		44,318		529,104	(598,488)	25,066	(579,419)	
BALANCE — December 31, 2007	<u>653</u>	<u>\$ 392,603</u>	<u>7,815</u>	<u>\$4,698,608</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	

Share figures reflect the effects of a 5 for 1 stock dividend effective to shareholders of record on August 31, 2005.

See accompanying notes to consolidated financial statements.

DCP HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For Each of the Three Years in the Period Ended December 31, 2007

	<u>2007</u>	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income on redeemable common shares	\$ 604,485	\$ 102,941	\$ 467,102
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	405,186	615,962	315,052
Deferred income taxes	(143,657)	(53,168)	(8,197)
Deferred compensation	288,704	127,670	
Effects of changes in operating assets and liabilities, net of acquired assets and liabilities:			
Accounts receivable	(180,873)	(97,484)	39,568
Prepaid expenses, deposits, and other	(99,694)	33,859	(74,953)
Other assets	(72,072)	(254,925)	49,802
Claims payable	(1,497,340)	729,777	419,018
Unearned premium revenue	78,448	(131,514)	259,978
Accounts payable and accrued expenses	100,620	410,786	625,043
Federal income tax payable	118,259	(85,040)	(71,856)
Net cash (used) provided by operating activities	<u>(397,934)</u>	<u>1,398,864</u>	<u>2,020,557</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant, and equipment	(137,497)	(160,429)	(78,942)
Acquisition of business, net of acquired cash		(25,000)	(17,407)
Purchases of investments	(1,150,204)	(1,700,000)	(1,804,651)
Maturities of investments	<u>1,162,000</u>	<u>1,600,000</u>	<u>1,600,000</u>
Net cash used in investing activities	<u>(125,701)</u>	<u>(285,429)</u>	<u>(301,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Mortgage loan repayments	(120,000)	(120,000)	(120,000)
Repayment of capital lease	(210,486)	(198,120)	(171,368)
Repayments of note	(55,417)	(95,000)	(91,568)
Repurchase of redeemable common shares	(62,174)	(140,567)	(12,431)
Issuance of redeemable common shares	<u>265,863</u>	<u>35,022</u>	
Net cash used in financing activities	<u>(182,214)</u>	<u>(518,665)</u>	<u>(395,367)</u>
INCREASE (DECREASE) IN CASH	(705,849)	594,770	1,324,190
CASH — Beginning of period	<u>6,223,757</u>	<u>5,628,987</u>	<u>4,304,797</u>
CASH — End of period	<u>\$ 5,517,908</u>	<u>\$ 6,223,757</u>	<u>\$ 5,628,987</u>
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid for interest	95,000	121,000	129,000
Cash paid for income taxes	335,000	218,000	375,000
Redeemed common shares in other current liabilities	62,644	50,753	
Capital lease obligation			602,000

See accompanying notes to consolidated financial statements.

DCP HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2007 and 2006 and for Each of the Three Years in the Period
Ended December 31, 2007, 2006 and 2005

1. GENERAL INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DCP Holding Company (the "Company") is the parent holding company of three wholly-owned subsidiaries which include Dental Care Plus, Inc., or Dental Care Plus, an Ohio corporation, Insurance Associates Plus, Inc., or Insurance Associates, an Ohio corporation, and Adenta, Inc., or Adenta, a Kentucky corporation. The Company is owned and controlled primarily by 653 dentists who participate in our Dental Care Plus plans. The Company offers to employer groups of all sizes health maintenance organization ("HMO"), participating provider organization ("PPO") and indemnity plans for dental care services. As of December 31, 2007, the Company had approximately 238,100 members in its dental benefits programs with 1,972 dentists participating in its two provider networks in Southwestern Ohio, Northern Kentucky, Central Kentucky and Southeastern Indiana. In addition, the Company had approximately 6,900 members in its vision benefit programs. The Company markets its products through a network of independent brokers.

The Company's products consist primarily of dental HMO, PPO and indemnity plans, with dental HMO products constituting 97% of its total revenues. All of the Company's products are marketed to employer groups. The Company's business model allows it to offer dental benefit products including broad networks of participating dentists while at the same time promoting the use of private practice fee-for-service dentistry, a primary interest of the Company's participating dentists. The dental benefit products the Company offers currently vary depending on geographic market.

On December 18, 2006, the Ohio Department of Insurance approved Dental Care Plus, Inc.'s application for a life and health insurance license. As an Ohio-domiciled insurance company dually licensed as a life and health insurer and a specialty health insuring corporation, Dental Care Plus is now able to underwrite dental indemnity, dental PPO, dental HMO, and vision benefit products as well as other life and health oriented products in Ohio. As of October 1, 2007, the Company transitioned the majority of its employer groups with dental indemnity products underwritten by a third party insurance carrier to dental indemnity products underwritten by Dental Care Plus.

The accounting policies of the Company conform to accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The accompanying financial statements include estimates for items such as claims payable, income taxes and various other liability accounts. Actual results could differ from those estimates. Policies that affect the more significant elements of the financial statements are summarized below.

Basis of Presentation — The accompanying consolidated financial statements include the accounts of the Company and subsidiaries, each of which is wholly-owned, and have been prepared in conformity with accounting principles generally accepted in the United States of America. All significant intercompany accounts and balances have been eliminated in consolidation.

Cash and Cash Equivalents — The Company defines cash as cash held in operating accounts at financial institutions. The Company considers highly liquid investments with maturities of three months or less at the date of acquisition as cash equivalents in the accompanying financial statements.

Investments — The Company places its investments primarily in certificates of deposit. The Company classified all investments as available-for-sale. Such investments are recorded at fair value, with unrealized gains and losses recorded as a component of other comprehensive income. The Company recognizes gains and losses when these securities mature or are sold using the specific identification method.

Property, Plant, and Equipment — Property, plant, and equipment is carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the

DCP HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

assets. The building and the building improvements have useful lives of 27 years and 15 years, respectively. Furniture and fixtures have a useful life of 5 years, and computer equipment and software have useful lives of up to 3 years. Maintenance and repair cost are expensed as incurred.

The Company reviews property, plant, and equipment for impairment whenever events or changes in circumstances, such as significant decreases in market values of assets, changes in legal factors or in the business climate, and accumulation of costs significantly in excess of the amount originally expected to acquire or construct an asset, or other such factors indicated that the carrying amount may not be recoverable.

State Guarantee Fund Deposits — The Company maintains funds on deposit with state insurance departments in those states where the Company is licensed to do business. These non-current funds amounted to approximately \$277,000 and \$357,000 at December 31, 2007 and 2006, respectively. These funds are restricted and not available to the Company for normal operations and are included in other non-current assets in the accompanying consolidated balance sheets.

Goodwill and Intangible Assets — Goodwill arises in business combinations when the purchase price of assets acquired exceeds the appraised value. As with tangible and other intangible assets, periodic impairment reviews are required, at least annually, as well as when events or circumstances change. Management uses judgment in assessing goodwill for impairment. We review the recorded value of our goodwill annually, or sooner if events or changes in circumstances indicate that the carrying amount may exceed fair value. The review for impairment requires management to predict the estimated cash flows that will be generated by the long-lived asset over its remaining estimated useful life. Considerable judgment must be exercised in determining future cash flows and their timing and, possibly, choosing business value comparables or selecting discount rates to be used in any value computations.

Business acquisitions often result in recording intangible assets. Intangible assets are recognized at the time of an acquisition, based upon their fair value. Similar to long-lived tangible assets, intangible assets are subject to amortization and periodic impairment reviews whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As with tangible assets, considerable judgment must be exercised.

Policy Acquisition Cost — Policy acquisition costs, which consist of commissions and other costs incurred in connection with acquiring new business, are charged to selling, general and administrative expenses as incurred under accounting principles generally accepted in the United States ("GAAP") for providers of prepaid healthcare services.

Redeemable Common Shares — The Company's Class A and Class B redeemable common shares are owned by participating providers and Company directors. Only participating providers in the original eight county area are eligible to own Class A voting redeemable common shares (See Note 10). All participating providers, Company directors and Company employees are eligible to own the Class B non-voting redeemable common shares. As of December 31, 2005 to comply with the requirements of EITF D-98, the Company changed its reporting related to its redeemable common shares as a result of becoming a Securities and Exchange Commission registrant. The Company's Class A and Class B common shares are now considered to be redeemable common shares due to the fact that the shareholders have the option to require the Company to repurchase these shares upon their death, permanent disability or retirement. The Company now records Class A and Class B common shares as Redeemable Common Shares in the consolidated balance sheets outside of shareholders' equity at the redemption value of the common shares. Accordingly, the Company records any net income (loss) or other comprehensive income (loss) that formerly was recorded as a change to retained earnings as a change to the redemption value of the Redeemable Common Shares to accrete the carrying value of the Redeemable Common Shares to the redemption value at the end of each reporting period. Under this method, the end of the reporting period is treated as if it were also the redemption date for the security.

DCP HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Premium Revenue —

Fully-Insured — Membership contracts are written on an annual basis and subject to cancellation by the employer group or the Company upon thirty days written notice. Management has determined that as of December 31, 2007, 2006, and 2005, respectively, no cancellation reserve is required. Premiums are due monthly in advance and are recognized evenly as revenue during the period in which the Company is obligated to provide services to members. Any premiums received prior to the beginning of a reporting period are recognized as unearned premium revenue. Any amounts not received by the end of a reporting period are recorded as accounts receivable by the Company.

Self-Insured — The Company provides access to its provider network for an administrative fee, generally to “self-insured” groups. During the years ended December 31, 2007, 2006, and 2005, the Company provided service to approximately 84,000, 62,000, and 46,000 self-insured participants and provided approximately 927,000, 669,000, and 518,000, respectively, of self insurance participant months of coverage. Self-insured premium revenue is based on the claims incurred by self-insured members in accordance with agreements with self-insured employers. The Company has no underwriting risk arising from the provision or cost of any services provided to the self-insured groups. Consistent with provisions of EITF 99-19, “Recording Revenue Gross as a Principal Versus Net as an Agent,” the Company recognizes and records self-insured premium on a gross basis because: (i) the Company is the primary obligor in the contractual relationship, (ii) the Company establishes the pricing for the services provided, (iii) the Company controls the relationship with the dental service providers, and (iv) the Company has credit risk in these contractual relationships. Self-insured premium revenue is recorded when the self-insured claims are incurred. Amounts withheld on claims processed for self-insured contracts and under third-party administration arrangements amounted to approximately \$1,880,000, \$1,199,000, and \$952,000 for the years ended December 31, 2007, 2006 and 2005, respectively, and is included in premium revenue in the accompanying consolidated statements of income.

ASO Fees — Third party administration fee revenue (“ASO fees”) is recognized monthly when earned and is normally based on annual contracts with the self-insured groups. ASO fees are charged to self-insured employer groups monthly on a per subscriber per month basis. ASO fees also include the administrative fees the Company earns relative to the dental PPO and vision products that are underwritten by third party insurance carriers.

Healthcare Service Expense — The Company compensates its providers based on agreed-upon fees for various services. With respect to the Dental HMO product, the Company retains 10% of these fees (including payments on self-insured claims) in accordance with the Company’s provider agreement. Under the terms of the Company’s provider agreement, the Company is not obligated to return to providers any withheld amounts. Amounts withheld are a reduction of healthcare service expense in the accompanying consolidated statements of income. Withheld amounts are retained by the Company but not reserved or retained in a separate fund. Participating providers have no interest in the amounts withheld unless the Company’s Board of Directors authorizes any amount to be paid to the providers.

The cost of healthcare services provided to members is accrued in the period such services are provided based on the accumulation of estimates of claims reported prior to the end of a reporting period and of estimates of dental services provided but not reported to the Company, net of the amounts withheld in accordance with the provider agreement.

Management’s estimates of dental services provided are based on the Company’s historical experience and current trends, with assistance from the Company’s consulting actuary. Estimated dental claims payable are reviewed regularly by management and are adjusted based on current information, such as actual paid claims data, dental utilization statistics and other pertinent information. However, final claim payments may differ from the established reserves. Any resulting adjustments are reflected in current operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company incurred claim costs related to dental care providers amounting to approximately \$48,153,000, \$42,026,000, and \$36,249,000 for the years ended December 31, 2007, 2006, and 2005, respectively. These costs include approximately \$38,941,000, \$36,972,000, and \$33,476,000 of claims incurred by participating providers who are also holders of redeemable common shares in 2007, 2006, and 2005, respectively. These incurred claim costs also include provider withhold return expense of \$650,000, \$900,000, and \$610,000 in 2007, 2006 and 2005, respectively.

In December of each year the Company's Board of Directors (the "Board") evaluates the performance of the dental HMO plan, capital and surplus requirements prescribed by the Ohio Department of Insurance, factors impacting its financial strength rating, funding needed to support strategic objectives for the coming years and any other factors deemed relevant by the Board and, based on that evaluation, determines whether or not to return the payment to the providers of any portion of the provider withhold. Once authorized by the Board, such amounts are recorded as additional healthcare services expense in the period authorized and shown as additional claims payable liability until paid.

Reinsurance — In the normal course of business, the Company cedes portions of its written premium revenue. As such, the Company limits its loss exposure to that portion of the insurable risk that it retains. However, if a reinsurer fails to honor its obligations, the Company could suffer additional losses as the reinsurance contracts do not relieve the Company of its obligations to policyholders. Dental insurance premiums ceded were approximately \$228,000 and \$13,000 for the years ended December 31, 2007 and 2006, respectively. The healthcare services expense ceded was approximately \$189,000 and \$10,000 for the years ended December 31, 2007 and 2006, respectively. As of December 31, 2007 the Company has approximately \$26,500 of reinsurance recoverable and prepaid reinsurance premium net of reinsurance payable, which is included in accounts receivable.

Derivative Instruments — All derivative financial instruments are recorded on the balance sheet at fair value. Changes in the fair value of derivatives that are designated as fair value hedges are recognized in earnings as offsets to the changes in fair values of the exposures being hedged. The changes in fair value of derivatives that are designated as cash flow hedges are recorded in accumulated other comprehensive income, as a component of the consolidated balance sheet, with subsequent reclassification to earnings when the hedged transaction asset or liability impacts earnings. Any ineffectiveness is recognized in earnings immediately.

Non-Operating Income — Investment income of approximately \$269,000, \$198,000, and \$104,000 during 2007, 2006, and 2005, respectively, is comprised of approximately \$175,000, \$73,000, and \$42,000 of interest income earned from cash in operating accounts in 2007, 2006 and 2005, respectively, and approximately \$94,000, \$125,000, and \$62,000 of investment income earned from short-term and long-term investments in 2007, 2006, and 2005, respectively.

Other income is comprised primarily of rental income from the rental of space in the building owned and partially occupied by the Company (See Note 14) as well as revenues earned from the leasing of the Company's dental provider network to other dental benefit providers.

Federal Income Tax — Deferred federal income tax is provided in the accompanying financial statements for the tax effects of temporary differences between the carrying values and tax bases of assets and liabilities. Differences result primarily from items such as loss reserve discounting, unrealized gains or losses on invested assets and partial recognition of the unearned premiums.

The Company continually reviews the deferred tax assets to determine the necessity of a valuation allowance. The Company files a consolidated federal income tax return which includes all subsidiaries.

Effective January 1, 2007 the Company adopted FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes". FIN 48 is an interpretation of SFAS No. 109, "Accounting for Income Taxes". This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be

DCP HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

taken in a tax return. This Interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

Earnings Per Share — Basic and diluted earnings per share is computed by dividing net income on redeemable common shares by the weighted average number of common shares outstanding during the period.

Concentrations of Credit Risk — Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of premiums receivable. Other than as discussed below, concentrations of credit risk with respect to premiums receivable are limited because of the large number of employee groups comprising the Company's client base and contracts are cancelled if premiums are not paid within 90 days.

During 2007, 2006, and 2005, four customers accounted for approximately 22%, 27%, and 21%, respectively, of the Company's fully-insured premiums revenue. Additionally, two customers accounted for approximately 50%, 65%, and 69% of the Company's net self-insured administration and claims revenue at December 31, 2007, 2006, and 2005, respectively.

At December 31, 2007 and 2006, premiums receivable from one customer totaled approximately 21% and 8%, respectively, of the premiums receivable balance.

The Company maintains its cash in bank deposit accounts, which at times exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant risks with respect to its cash.

Fair Value of Financial Instruments — The Company bases the fair value for the investments available-for-sale and the fair value of the interest rate swap on quoted market prices. The Company estimates the fair value of the mortgage obligation using a discounted cash flow calculation. The Company believes the fair value of the capital lease obligation approximates the present value of minimum lease payments at December 31, 2007 and 2006.

New Accounting Standards — In September 2006, SFAS No. 157, Fair Value Measurements, was issued. This statement provides a new definition of fair value that serves to replace and unify old fair value definitions so that consistency on the definition is achieved, and the definition provided acts as a modification of the current accounting presumption that a transaction price of an asset or liability equals its initial fair value. The statement also provides a fair value hierarchy used to classify source information used in fair value measurements that places higher importance on market based sources. New disclosures of assets and liabilities measured at fair value based on their level in the fair value hierarchy are required by this statement. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Two FASB Staff Positions on SFAS No. 157 were subsequently issued. On February 12, 2007, FSP No. 157-2 delayed the effective date of this SFAS No. 157 for non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. This FSP is effective for fiscal years beginning after November 15, 2008. On February 14, 2007, FSP No. 157-1 excluded FASB No. 13 Accounting for Leases and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS No. 13. However, this scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value under FASB Statement No. 141, Business Combinations or FASB No. 141R, Business Combinations. This FSP is effective upon initial adoption of SFAS No. 157. The Company is currently evaluating the impact of adopting SFAS No. 157 on its consolidated financial position, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115". SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with few exceptions. SFAS No. 159 also establishes presentation and disclosure requirements to facilitate comparisons between companies that choose different measurement attributes

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

for similar assets and liabilities. The requirements of SFAS No. 159 will be effective for the Company beginning January 1, 2008. The Company does not expect SFAS No. 159 to have a material effect on our results of operations or financial position. ,

In December 2007, the FASB issued SFAS No. 141 (revised), "Business Combinations". SFAS No. 141(R) changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for preacquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, except for certain tax adjustments for prior business combinations. Accordingly, we will adopt this statement on January 1, 2009. The Company is evaluating the effect SFAS No. 141(R) will have on our consolidated financial position and results of operations.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51". SFAS No. 160 changes the accounting for noncontrolling (minority) interests in consolidated financial statements including the requirements to classify noncontrolling interests as a component of consolidated stockholders' equity, and the elimination of "minority interest" accounting in results of operations with earnings attributable to noncontrolling interests reported as part of consolidated earnings. Additionally, SFAS 160 revises the accounting for both increases and decreases in a parent's controlling ownership interest. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. Accordingly, we will adopt this statement on January 1, 2009. The Company does not expect the adoption of SFAS No. 160 to have a material impact on our consolidated financial position or results of operations.

2. ACQUISITION

On June 2, 2005 the Company acquired Adenta, Inc. pursuant to a merger. The Company paid cash consideration of \$250,000, assumed interest bearing debt of \$241,985, and incurred transaction costs of \$47,361, resulting in a total preliminary purchase price of \$539,346. The Company deposited \$50,000 of the \$250,000 of cash consideration into an escrow account pending the results of the net asset valuation analysis prescribed in the escrow agreement completed in May of 2006.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

After completing the required net asset valuation analysis in May of 2006, the Company and the representatives of the former Adenta shareholders negotiated an agreement whereby the former Adenta shareholders were paid the \$50,000 held in escrow plus additional cash consideration of \$25,000. Under the terms of the negotiated agreement, the Company is no longer obligated to pay the former Adenta shareholders any portion of its tax savings resulting from the use of certain tax loss carry forwards. With the completion of the final purchase price allocation in June of 2006, the goodwill was determined to be \$136,355. The following table summarizes the preliminary and final purchase price allocation.

	Preliminary	Adjustments	Final
Cash consideration	\$ 250,000	\$ 25,000	\$ 275,000
Interest bearing debt assumed	241,985	3,666	245,651
Transaction costs	47,361		47,361
Total purchase price	<u>\$ 539,346</u>	<u>\$ 28,666</u>	<u>\$ 568,012</u>
Current assets (includes cash of \$279,954)	\$ 354,516	\$(28,307)	\$ 326,209
Fixed assets	4,336		4,336
Other assets	59,320		59,320
Intangible assets	450,000		450,000
Goodwill	66,990	69,365	136,355
Current liabilities assumed	(358,659)	(30,600)	(389,259)
Deferred tax liability	(37,157)	18,208	(18,949)
Net assets acquired	<u>\$ 539,346</u>	<u>\$ 28,666</u>	<u>\$ 568,012</u>

With the acquisition of Adenta, the Company obtained a network lease agreement with Humana Dental, approximately 10,000 dental members and a provider network consisting of approximately 500 dentists in Kentucky. Of the \$450,000 allocated to intangible assets, \$210,000 was allocated to the Humana Dental network lease contract with a 3-year useful life, \$130,000 was allocated to Adenta memberships with a 12-year useful life, and \$110,000 was allocated to the Adenta provider network with a 20-year useful life. The results of operations of Adenta are included in the Company's consolidated financial statements since June 2, 2005.

3. INTANGIBLE ASSETS

Intangibles assets amounting to approximately \$568,000 were recorded as a result of the acquisition of Adenta, Inc. (See Note 2), such intangibles were related to an acquired contract, memberships, a provider network and goodwill. Identifiable and amortizable intangible assets amounted to \$450,000. Amortization expense for 2007, 2006 and 2005 was approximately \$15,000, \$196,000, and \$50,000 respectively. The provider access contract and the provider network intangible assets are being amortized on a straight-line basis with amortization periods of 3 years and 20 years, respectively. The membership intangible asset is being amortized with an accelerated amortization in the first year and then on a straight-line basis for the remaining 11 years of its 12 year useful life in accordance with the Company's expectation for the membership retention. The weighted-average amortization period for these intangible assets is approximately 9 years.

On July 25, 2006, Humana Dental provided the Company with written notice of termination of the network lease agreement effective October 23, 2006. Accordingly the Company recorded an impairment charge of approximately \$128,000 (included in amortization expense) to eliminate the remaining balance associated with the Humana Dental network lease agreement intangible asset in July of 2006. For the year ended December 31, 2006, the Company recorded amortization expense of approximately \$196,000 related to these identifiable intangible assets. The results of operations of Adenta are included in the Company's consolidated financial statements since June 2, 2005. The Company estimates amortization expense on remaining identifiable intangible assets will be approximately \$15,000 in each of the fiscal years 2007-2011.

DCP HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. INVESTMENTS

The Company owned FDIC insured certificates of deposit with a cost of \$1,967,000 and \$1,900,000 as of December 31, 2007 and 2006, respectively. Each certificate of deposit is invested with a separate FDIC-insured financial institution. As of December 31, 2007, twelve certificates of deposit with a cost of \$1,109,000 and a fair value of \$1,109,139 have maturities of between 12 and 24 months. As of December 31, 2006, eight certificates of deposit with a cost of \$800,000 and a fair value of \$796,189 had maturities of between 12 and 15 months. These short-term and long-term investments are classified as available-for-sale and are carried at fair value, which is based on quoted market prices. The unrealized losses on investment activity are due to a decrease in the quoted market prices for these certificates of deposit caused by an increase in prevailing interest rates since they were purchased.

Investments classified at December 31, 2007 and 2006, as short term and long term assets were as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Loss</u>	<u>Fair Value</u>
2007				
Certificates of deposit — short term	\$ 858,000	\$ 39	\$ 191	\$ 857,848
Certificates of deposit — long term	1,109,000	1,078	939	1,109,139
Other-long term		544		544
Total investments	<u>\$1,967,000</u>	<u>\$1,661</u>	<u>\$1,130</u>	<u>\$1,967,531</u>

	<u>Amortized Cost</u>	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Loss</u>	<u>Fair Value</u>
2006				
Certificates of deposit — short term	\$1,100,000	\$	\$3,279	\$1,096,721
Certificates of deposit — long term	800,000		3,811	796,189
Total investments	<u>\$1,900,000</u>	<u>\$</u>	<u>\$7,090</u>	<u>\$1,892,910</u>

5. LIABILITY FOR CLAIMS PAYABLE

Activity in the liability for claims payable for members is summarized as follows:

	<u>2007</u>	<u>2006</u>
Balance — January 1	\$ 3,987,591	\$ 3,257,815
Net incurred related to:		
Current year	31,623,756	30,601,329
Prior years	(363,791)	(130,701)
Net incurred claims	<u>31,259,965</u>	<u>30,470,628</u>
Net paid related to:		
Current year	29,133,504	26,617,014
Prior years	3,623,801	3,123,838
Net paid claims	<u>32,757,305</u>	<u>29,740,852</u>
Balance — December 31	<u>\$ 2,490,251</u>	<u>\$ 3,987,591</u>

DCP HOLDING COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

6. FEDERAL INCOME TAXES

The components of the provision for income taxes are summarized as follows as of December 31, 2007, 2006 and 2005, respectively:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current tax expense:			
Federal	\$ 447,502	\$132,960	\$303,143
State and local	<u>8,742</u>	<u>6,230</u>	<u>25,885</u>
Total current tax expense	<u>456,244</u>	<u>139,190</u>	<u>329,028</u>
Deferred tax expense:			
Federal	(141,193)	(57,455)	(3,882)
State and local	<u>(2,464)</u>	<u>4,287</u>	<u>(4,315)</u>
Total deferred tax expense	<u>(143,657)</u>	<u>(53,168)</u>	<u>(8,197)</u>
Total provision for income taxes	<u>\$ 312,587</u>	<u>\$ 86,022</u>	<u>\$320,831</u>

Deferred tax assets and liabilities are comprised of the following:

	<u>2007</u>	<u>2006</u>
Deferred tax assets:		
Unearned premiums	\$ 44,723	\$ 39,981
Net operating loss	82,477	98,796
Claims payable	16,163	20,315
Accrued vacation	31,769	35,148
Accrued commissions	75,894	
Deferred compensation	141,566	43,407
Accrued professional fees	7,607	10,823
Other, net	<u>12,202</u>	<u>20,369</u>
Gross deferred tax assets	<u>412,401</u>	<u>268,839</u>
Deferred tax liabilities:		
Unrealized gain	9,179	22,276
Prepaid insurance	37,681	39,612
Accelerated depreciation	57,636	50,396
Identifiable intangible assets	<u>64,101</u>	<u>69,319</u>
Gross deferred tax liabilities	<u>168,597</u>	<u>181,603</u>
Net deferred tax asset	<u>\$243,804</u>	<u>\$ 87,236</u>
Balance sheet classification		
Net current deferred tax asset	\$142,429	\$ 75,881
Net long-term deferred asset	<u>101,375</u>	<u>11,355</u>
Net deferred tax asset	<u>\$243,804</u>	<u>\$ 87,236</u>

Management believes it is more likely than not that deferred tax assets will reduce future income tax payments. Significant factors considered by management in its determination of the probability of the realization of the

DCP HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

deferred tax benefits include the historical operating results and the expectations of future earnings. The Company's effective tax rate was different from the U.S. statutory rate due to the following:

	2007	2006	2005	2007 Effective Tax Rate	2006 Effective Tax Rate	2005 Effective Tax Rate
Provision computed at statutory rate	\$311,804	\$64,247	\$267,897	34.0%	34.0%	34.0%
Reorganization cost		10,414	52,230		5.5	6.6
State and local taxes	3,007	6,557	12,769	0.3	3.5	1.6
FIN 48, release	(5,757)			(0.6)		
Other — net	3,533	4,804	(12,065)	0.4	2.5	(1.5)
Provision for income taxes . . .	<u>\$312,587</u>	<u>\$86,022</u>	<u>\$320,831</u>	<u>34.1%</u>	<u>45.5%</u>	<u>40.7%</u>

The Company had \$242,579, \$291,000 and \$316,881 of net operating loss carry forwards to utilize in future years at December 31, 2007, 2006 and 2005, respectively. These losses will expire between 2010 and 2024.

7. ACCOUNTING FOR UNCERTAIN TAX POSITIONS

In connection with the adoption of FIN 48, the Company recorded a cumulative effect adjustment of a change in accounting principle as prescribed by FIN 48 which reduced retained earnings approximately \$6,000. The amount of unrecognized tax benefits from uncertain tax positions at January 1, 2007 was \$4,300. The Company has accrued approximately \$1,700 in interest and penalties as of January 1, 2007. The total amount of FIN 48 liability recorded at January 1, 2007 of \$6,000 is included as a current liability in accounts payable and other accrued liabilities in the accompanying balance sheet. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at January 1, 2007	\$ 6,000
Additions based on tax positions related to current year	—
Additions for tax positions of prior years	—
Reductions for tax positions of prior years	(5,760)
Settlements, including interest and penalties	(240)
Balance at December 31, 2007	<u>\$ —</u>

For the year ended December 31, 2007, the Company reduced its remaining FIN 48 liability of \$5,760, as they settled all outstanding state income tax issues associated with the original recorded amount.

The Company is primarily subject to US federal and various US state and local tax authorities. Tax years subsequent to 2004 remain open to examination by the Internal Revenue Service, and 2003 remain open to other state and local a tax authorities. As of December 31, 2007, there are no U.S. federal or state returns under examination.

8. DEFERRED COMPENSATION PLAN

Effective January 1, 2006, the Company adopted the provisions of SFAS 123R, which replaced SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). SFAS 123R requires the Company to record compensation costs relating to share-based payment transactions in its financial statements. Under the fair value recognition provisions of SFAS 123R, share-based compensation cost is measured at the grant date based on the fair value of the liability awards and is recognized as expense ratably over the vesting periods. The fair value of the liability awards are

DCP HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

remeasured at the end of each reporting period through the remaining vesting period with the change in fair value of the liability recognized currently.

In accordance with the 2006 Dental Care Plus Management Equity Incentive Plan and the Dental Care Plus, Inc. and DCP Holding Company Deferred Compensation Plan (the "Plans"), Company directors and certain key employees elected to defer portions of their director fees and employee compensation, as applicable. The Company recorded deferred compensation expense of approximately \$90,000 and \$73,000 related to deferred director fees and employee compensation for the years ended December 31, 2007 and 2006, respectively. The Plans also provide for the directors and key employees to elect to receive awards based on the book value of the redeemable common shares and to defer receiving such amounts until termination of board membership or employment and vesting requirements are met. Under the terms of these plans, these deferred amounts will be paid in cash. An individual director's award will vest 100% at the end of each year if the director meets the board meeting attendance requirements. The key employee awards will vest 10%, 20%, 30% and 40% at the end of each respective year in a four-year period following the grant date. The Company considered SFAS 123(R) in evaluating the accounting treatment for our deferred compensation plan and recorded deferred compensation expense of approximately \$183,000 and \$54,000 related to deferred share awards for the years ended December 31, 2007 and 2006, respectively. No deferred compensation expense was recognized in 2005 related to deferred share awards.

9. EARNINGS PER REDEEMABLE COMMON SHARE

Detail supporting the computation of basic and diluted earnings per redeemable common share was as follows for the years ended December 31, 2007, 2006, and 2005:

	2007	2006	2005
Net income available for redeemable common shareholders . . .	<u>\$604,485</u>	<u>\$102,941</u>	<u>\$467,102</u>
Weighted average outstanding redeemable common shares used to compute basic earnings per redeemable common share . . .	<u>8,294</u>	<u>8,175</u>	<u>8,471</u>
Basic earnings per redeemable common share	<u>\$ 72.88</u>	<u>\$ 12.59</u>	<u>\$ 55.14</u>
Weighted average outstanding redeemable common shares used to compute diluted earnings per redeemable common share . .	<u>8,338</u>	<u>8,175</u>	<u>8,471</u>
Diluted earnings per redeemable common share	<u>\$ 72.50</u>	<u>\$ 12.59</u>	<u>\$ 55.14</u>

The weighted average outstanding redeemable common shares used to compute basic earnings per redeemable common share have been adjusted for the stock split that occurred effective August 31, 2005. As of December 31, 2007, there were 44 restricted share awards granted that have a dilutive effect on the Company's earnings per share. As of December 31, 2006 and 2005, no restricted share awards had been granted that would have a dilutive effect on the Company's basic earnings per share.

10. REDEEMABLE COMMON SHARES, SHAREHOLDERS' EQUITY AND DIVIDEND RESTRICTIONS

The outstanding redeemable common shares in 2007, 2006, and 2005 have been adjusted for the stock split that occurred effective August 31, 2005.

Providers in the original eight county area have the option to purchase one share of voting Class A Redeemable Common Shares of the Company. The area we refer to as our original eight county service area includes: Butler, Clermont, Hamilton and Warren counties in Ohio, and Boone, Campbell, Kenton and Pendleton counties in Kentucky. All participating providers along with Company directors and employees have the option to purchase one or more non-voting Class B Redeemable Common Shares of Company. Accordingly, prospective shareholders may make a subscription payment per share equal to the book value of a common share, which was \$601 and \$532 at

DCP HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

December 31, 2007 and 2006, respectively. The Company's Board of Directors review each common share subscriber, and once approved, the common share is issued.

The Company has authorized 100,000 preferred shares, without par value. As of December 31, 2007 and 2006, no preferred shares were issued or are outstanding. The preferred shares do not have voting rights except to the extent required by law or designated by the Board of Directors.

On August 10, 2005, the Company's Board of Directors approved and declared a stock dividend of five Class B Redeemable Common Shares for each Class A Redeemable Common Shares and five Class B Redeemable Common Shares for each Class B Redeemable Common Share outstanding as of August 31, 2005. There were 653 and 681 Class A Redeemable Common Shares, 7,815 and 7,438 Class B Redeemable Common Shares issued and outstanding as of December 31, 2007 and 2006, respectively.

Dividends restrictions vary among the subsidiaries. Dental Care Plus is restricted by regulatory requirements of the domiciliary state, which limit by reference to statutory net income and net worth the dividends that can be paid without prior regulatory approval. Dividends paid by Dental Care Plus cannot, without prior approval of the Department, exceed in any one year the lesser of: (i) 10% of net worth (as of the preceding December 31), or (ii) net income for the prior year, and only if net worth exceeds \$250,000 and only out of positive retained earnings. Under these restrictions, the total dividends that may be paid by Dental Care Plus in 2008 without prior regulatory approval are approximately \$467,000. There were no dividends declared or paid by any subsidiaries during 2007 or 2006. Dental Care Plus paid a dividend of \$250,000 in 2005.

Generally accepted accounting principles differ in certain respects from the accounting practices prescribed or permitted by state insurance regulatory authorities ("statutory-basis"). The statutory-basis net income of Dental Care Plus was approximately \$494,000, \$175,000, and \$311,000 for the years ended December 31, 2007, 2006, and 2005, respectively. Statutory-basis net worth was approximately \$4,670,000 and \$4,171,000 at December 31, 2007 and 2006, respectively.

11. LONG TERM DEBT

In 2003, the Company purchased land and an office building and in connection therewith, the Company executed a mortgage note, secured by the land and the office building, with a bank in the amount of \$1,800,000. Interest is payable based on the 30-day LIBOR rate plus 175 basis points and was 6.07% and 7.07% at December 31, 2007 and 2006, respectively. At the maturity date of the mortgage note in 2013, the expected outstanding balance of the note must be repaid, amounting to \$600,000.

The Company entered into an interest rate swap agreement (Note 12) that effectively changed the interest rate related to \$1,500,000 of the Company's \$1,800,000 mortgage note with Fifth Third Bank from a variable rate based on the 30-day LIBOR rate plus 175 basis points to a fixed rate of approximately 4.95% for the 10-year period through June 12, 2013. The Company's effective interest expense was 5.22%, 5.41% and 5.18% at December 31, 2007, 2006 and 2005, respectively.

At December 31, 2007, the fair value of the mortgage note is approximately \$1,226,000.

DCP HOLDING COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Required principal repayments under the mortgage loan payable are as follows:

2008	\$ 120,000
2009	120,000
2010	120,000
2011	120,000
2012	120,000
Thereafter	<u>660,000</u>
Total	1,260,000
Less current portion	<u>(120,000)</u>
Total long-term mortgage payable	<u>\$1,140,000</u>

In 2004, the Company entered into a Master Equipment Lease Agreement with a leasing company related to the computer hardware and software for its dental insurance administration system. The Master Equipment Lease Agreement includes a four year capital lease for computer software and implementation costs which totaled approximately \$823,000. The net book value of the equipment under the capital lease is approximately \$494,000 and \$658,000 at December 31, 2007 and 2006, respectively.

The fair value of the capital lease obligation approximates the present value of minimum lease payments at December 31, 2007.

At December 31, 2007, future required payments under the capital lease are as follows:

2008	232,213
2009	<u>19,351</u>
Total	251,564
Less imputed interest	<u>(8,687)</u>
Present value of minimum lease payments	<u>242,877</u>
Less current portion	<u>(223,624)</u>
Total long-term capital lease	<u>\$ 19,253</u>

12. FINANCIAL INSTRUMENTS

In 2003, the Company entered into an interest rate swap agreement ("Agreement") (cash flow hedge) with a total notional amount of \$1,500,000. The Agreement is used to manage the Company's interest rate risk. The swap agreement effectively changed the interest rate related to \$1,500,000 of the Company's \$1,800,000 mortgage note with Fifth Third Bank from a variable rate based on the 30-day LIBOR rate plus 175 basis points to a fixed rate of approximately 4.95% for the 10-year period through June 12, 2013. The Company's risk management policy is to not enter into any trading activities related to the Agreement. The Company believes that the risk of nonperformance by the other party in conjunction with this arrangement is not material to the financial statements. The fair value of this Agreement included other assets in the accompanying balance sheet was approximately \$27,000 and \$73,000 at December 31, 2007 and 2006, respectively. The amount included in other comprehensive (loss) income related to the interest rate swap was \$(30,096), (\$3,953), and \$15,429 (net of income tax expense (benefit) of (\$15,504), (\$2,037), and \$7,949) during 2007, 2006, and 2005, respectively.

DCP HOLDING COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

13. COMMITMENTS AND CONTINGENCIES

Leases — The Company leases certain equipment and office space under noncancellable operating leases. Rent expense under all operating leases was approximately \$211,000, \$210,000, and \$86,000 for the years ended December 31, 2007, 2006, and 2005, respectively.

At December 31, 2007, future approximate minimum annual lease payments under noncancellable operating leases are as follows: 2008 — \$166,000; 2009 — \$159,000; 2010 — \$148,000, and 2011 — \$31,000.

Litigation — In the normal course of business, the Company is subject to various regulatory proceedings, lawsuits, claims and other matters. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. In the opinion of the Company's management, the eventual resolution of such matters for amounts above those reflected in the consolidated financial statements would not likely have a materially adverse effect on the financial condition or results of operations of the Company.

14. LEASE INCOME

In 2004, the Company began to lease space in its building to unrelated parties under noncancellable leases. Income recorded by the Company under noncancellable leases amounted to approximately \$58,000, \$92,000 and \$74,000 for the years ended December 31, 2007, 2006 and 2005, respectively. Such amounts are recorded as other income in the accompanying financial statements. As of December 31, 2007, future minimum annual lease income under noncancellable leases are as follows:

<u>Years Ending December 31</u>	
2008	\$30,591
2009	<u>15,008</u>
Total	<u>\$45,599</u>

15. RETIREMENT PLAN

Employees of the Company are covered by a defined contribution 401(k) plan sponsored by the Company. Discretionary contributions of a certain percentage of each employee's contribution, which may not exceed a limit set annually by the Internal Revenue Service, are contributed by the Company each year and vest ratably over a five-year period. Company contributions, including administration fees paid by the Company amounted to approximately \$50,000, \$30,000, and \$26,000 in 2007, 2006, and 2005, respectively.

16. LINE OF CREDIT

On January 3, 2006, DCP Holding Company entered into an agreement with a commercial bank for a \$500,000 working capital line of credit. Interest is payable based on the prime borrowing rate and was 7.25% and 7.75% at December 31, 2007 and 2006, respectively. The Company did not have any interest expense for the line of credit in 2007 and paid \$158 in 2006.

As of December 31, 2007 and 2006, there were no amounts outstanding on the line of credit.

17. SEGMENT INFORMATION

The Company manages its business with three segments, fully-insured dental HMO, self-insured dental HMO and Corporate, All Other. Corporate, All Other consists primarily of certain corporate activities and three additional product lines: DentaSelect PPO, DentaPremier indemnity, and Vision Care Plus. We identified our segments in accordance with the aggregation provisions of Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosure about Segments of an Enterprise and Related Information". These segments are consistent with

DCP HOLDING COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

information used by our Chief Executive Officer (the chief decision maker) in managing our business. The segment information aggregates products with similar economic characteristics. These characteristics include the nature of customer groups and pricing, benefits and underwriting requirements.

The results of the fully-insured and self-insured HMO segments are measured by gross profit. The Company does not allocate selling, general and administrative expenses, investment and other income, interest expense, goodwill, or other assets or liabilities, to these segments. These items are assigned to the remainder of our business, which we identify as Corporate, All Other. The Company combines all gross profit and applies that amount as a contribution to selling, general and administrative expenses, resulting in a consolidated income before taxes. The Company's gross profit was approximately \$11,797,000, \$9,561,000 and \$8,608,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

Listed below is financial information required to be reported for each industry segment. Operating segment information is based on how it is reviewed by the Company and is as follows for the years ended December 31, 2007, 2006, and 2005 (amounts in 000's):

	Fiscal Year Ended December 31, 2007			Fiscal Year Ended December 31, 2006		
	Revenues- External Customers	Healthcare Services Expense	Total	Revenues- External Customers	Healthcare Services Expense	Total
Reportable Segments:						
Fully-Insured DHMO.....	\$38,496	\$30,236	\$ 8,260	\$37,658	\$30,178	\$ 7,480
Self-Insured DHMO.....	19,768	16,916	2,852	13,485	11,808	1,677
Corporate, All other.....	1,686	1,001	685	444	40	404
Total.....	<u>\$59,950</u>	<u>\$48,153</u>	11,797	<u>\$51,587</u>	<u>\$42,026</u>	9,561
Selling, general and administrative expense.....			11,149			9,755
Other income.....			269			383
Income (Loss) before Income Tax...			<u>\$ 917</u>			<u>\$ 189</u>
Total Assets, Corporate.....			<u>\$12,285</u>			<u>\$12,799</u>

	Fiscal Year Ended December 31, 2005		
	Revenues- External Customers	Healthcare Services Expense	Total
Reportable Segments:			
Fully-Insured DHMO.....	\$34,688	\$27,681	\$ 7,007
Self-Insured DHMO.....	10,044	8,568	1,476
Corporate, All other.....	125	—	125
Total.....	<u>\$44,857</u>	<u>\$36,249</u>	<u>8,608</u>
Selling, general and administrative expense.....			8,016
Other income.....			196
Income (Loss) before Income Tax.....			<u>\$ 788</u>
Total Assets, Corporate.....			<u>\$12,250</u>

DCP HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Inter-segment revenues were not significant for 2007, 2006, or 2005. See Note 1 for a discussion of major customers — “Concentrations of Credit Risk”.

18. RELATED PARTIES

All of the Company’s Class A and Class B Redeemable Common Shareholders are related parties, either as a participating provider, director or an employee of the Company.

The Company’s providers who are also shareholders submitted claims of approximately \$38,941,000, \$36,972,000, and \$33,476,000 in 2007, 2006 and 2005, respectively. The Company had claims payable liability to related party providers of approximately \$2,047,000 and \$3,508,000 at December 31, 2007 and 2006, respectively.

Seven of our Board members are also participating providers and as a group received approximately \$151,000, \$160,000, and \$104,000 in directors fees for the years ended December 31, 2007, 2006 and 2005, respectively.

19. QUARTERLY DATA (UNAUDITED)

A summary of our unaudited quarterly results of operations for the years ended December 31, 2007 and 2006 is as follows (amounts in thousands, except for per share results):

	2007				
	March 31	June 30	September 30	December 31	Total
Premium revenue	\$14,859	\$14,554	\$15,074	\$15,463	\$59,950
Gross profit	2,715	3,198	2,454	3,430	11,797
Income (Loss) before income taxes . .	(258)	558	(77)	694	917
Net income (Loss) on redeemable common shares	(176)	371	(53)	462	604
Basic earnings (loss) per redeemable common share(a)	(21.55)	45.45	(6.34)	54.83	72.88
Dilutive earnings (loss) per redeemable common share(a)	(21.55)	45.22	(6.34)	54.55	72.50

	2006				
	March 31	June 30	September 30	December 31	Total
Premium revenue	\$12,832	\$12,330	\$13,330	\$13,095	\$51,587
Gross profit	2,289	2,586	2,173	2,513	9,561
Income (Loss) before income taxes . .	(164)	263	(156)	246	189
Net income (Loss) on redeemable common shares(a)	(105)	178	(117)	147	103
Basic and dilutive earnings (loss) per redeemable common share(a)	(12.66)	21.44	(14.52)	18.31	12.59

- (a) The sum of quarterly earnings per common share may not equal the year end earnings per common share due to rounding. There were 44 restricted share awards granted in 2007 that were not included in the dilutive earnings per redeemable common share calculation in the quarterly results of operations for the three months ended March 31, 2007 and September 30, 2007 as their effect would have been anti-dilutive.

The Company’s dental plan members have historically used their dental plan benefits according to a seasonal pattern that has caused our quarterly healthcare services expense to be highest in the first quarter, slightly below average in the second quarter, slightly above average in the third quarter and lowest in the fourth quarter.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Securities and Exchange Act Rules 13a-15(e) and 15d-15(e)) as of December 31, 2007. Based on the evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of December 31, 2007.

Changes in Internal Control over Financial Reporting

The Chief Executive Officer and Chief Financial Officer also have concluded that in the fourth quarter of the fiscal year ended December 31, 2007, there were no changes in the company's internal controls that materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). In evaluating the Company's internal control over financial reporting, management has adopted the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Under the supervision and with the participation of our management, including the principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting, as of December 31, 2007. Based on our evaluation under the framework in *Internal Control-Integrated Framework*, our management has concluded that our internal control over financial reporting was effective as of December 31, 2007.

The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. However, because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This Annual Report Form 10-K does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. The Company's evaluation of effectiveness of internal control over financial reporting was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only this report.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Information required by this Item 10 pursuant to Item 401 of Regulation S-K regarding our directors is incorporated by reference to the Company's Proxy Statement sections and subsections entitled, "Election of Directors", "Director Nominees", "Audit Committee", "Section 16(a) Beneficial Ownership Reporting Compliance", "Audit Committee Report", "Nominating Committee", "Director Nomination Process" and "Code of Conduct". The information required by Item 10 regarding our executive officers appears as a Supplement Item following Item 4 under Part I hereof.

ITEM 11. EXECUTIVE COMPENSATION.

Information required by this Item 11 pursuant to Item 402 of Regulation S-K is incorporated by reference to the information under the sections and subsections "Executive Compensation", "Benefits and Compensation Committee" and "Benefits and Compensation Committee Report" contained in the Company's Proxy Statement in connection with its Annual Meeting of Shareholders to be held on April 23, 2008.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this Item 12 (other than the information by Item 201(d) of Regulation S-K which is set forth below) is incorporated by reference to the information under the section "Security Ownership of Certain Beneficial Owners and Management" contained in the Company's Proxy Statement in connection with its Annual Meeting of Shareholders to be held on April 23, 2008.

In December of 2005, we adopted the 2006 Dental Care Plus Management Equity Incentive Plan for our directors, Named Executive Officers and other key employees. The maximum aggregate number of restricted shares or restricted share units which may be issued under this plan are 15,000 Class B Common Shares. In 2007, the directors, Named Executive Officers and other key employees were granted 352 restricted share units.

<u>Plan Category</u>	<u>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights</u>	<u>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans</u>
Equity compensation plans approved by shareholders	—	—	—
Equity compensation plans not approved by shareholders	—	—	14,487
TOTAL	—	—	14,487

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by this Item 13 pursuant to Item 404 of Regulation S-K is incorporated by reference to the information under the Section "Transactions with Related Persons, Promoters and Certain Control Persons" contained in the Company's Proxy Statement in connection with its Annual Meeting of Shareholders to be held on April 23, 2008.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this Item 14 pursuant to Item 9(e) of Schedule 14A relating to auditor fees is incorporated by reference to the information under the Section "Other Matters" contained in the Company's Proxy Statement in connection with its Annual Meeting of Shareholders to be held on April 23, 2008.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES.

(a) The following documents are filed as part of this Form 10-K.

Page in Form 10-K

(1) Consolidated Financial Statements:

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Consolidated Balance Sheets as of December 31, 2007 and 2006.....	40
Consolidated Statements of Income for the Years Ended December 31, 2007, 2006 and 2005	41
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2007, 2006, and 2005.....	42
Consolidated Statements of Cash Flows for the Years Ended December 31, 2007, 2006, and 2005	43
Notes to the Consolidated Financial Statements.....	44

(2) Financial Statement Schedules:

DCP HOLDING COMPANY (Parent Only)

**Schedule I — Condensed Financial Information of Registrant
Condensed Balance Sheet Information
As of December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 405,157	\$ 250,180
Accounts receivable		5,553
Intercompany receivables	183,695	8,227
Intercompany note receivable	80,000	
Prepaid expense, deposits, and other	175,858	108,032
Deferred income tax, current	<u>13,666</u>	<u>71,364</u>
Total current assets	<u>858,376</u>	<u>443,356</u>
INVESTMENT IN SUBSIDIARIES	<u>5,388,048</u>	<u>4,790,815</u>
DEFERRED INCOME TAX, NONCURRENT	<u>149,814</u>	
OTHER ASSETS	<u>155,818</u>	<u>74,600</u>
TOTAL ASSETS	<u>\$6,552,056</u>	<u>\$5,308,771</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 184,039	\$ 137,345
Accrued expenses	706,602	634,425
Federal income tax payable	91,186	32,587
Other current liabilities	<u>62,644</u>	<u>50,753</u>
Total current liabilities	<u>1,044,471</u>	<u>855,110</u>
LONG TERM LIABILITIES:		
Deferred compensation	<u>416,374</u>	<u>127,670</u>
TOTAL LIABILITIES	<u>1,460,845</u>	<u>982,780</u>
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE COMMON SHARES:		
Class A, Redeemable Common Shares, no par value — authorized, 7,500 shares; issued and outstanding, 653 and 681 at December 31, 2007 and 2006, respectively	392,603	362,853
Class B Redeemable Common Shares, no par value — authorized, 100,000 shares; issued and outstanding, 7,815 and 7,438 at December 31, 2007 and 2006, respectively	<u>4,698,608</u>	<u>3,963,138</u>
Total redeemable common shares	<u>5,091,211</u>	<u>4,325,991</u>
SHAREHOLDERS' EQUITY-		
Preferred Shares; no par value, 100,000 shares authorized, none issued		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$6,552,056</u>	<u>\$5,308,771</u>

DCP HOLDING COMPANY (Parent Only)
Schedule I — Condensed Financial Information of Registrant
Condensed Statements of Income Information
For the Years Ended December 31, 2007, 2006, and 2005

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Management fees from Subsidiaries	\$7,429,027	\$6,477,688	\$4,937,832
Expenses —			
Selling, general and administrative expenses	<u>7,466,226</u>	<u>6,533,320</u>	<u>4,984,214</u>
Operating loss	(37,199)	(55,632)	(46,382)
Other, net	<u>19,654</u>	<u>(158)</u>	<u>756</u>
LOSS BEFORE INCOME TAX	<u>(17,545)</u>	<u>(55,790)</u>	<u>(45,626)</u>
PROVISION (BENEFIT) FOR INCOME TAX:			
Current	98,382	4,160	67,445
Deferred	<u>(92,116)</u>	<u>(10,825)</u>	<u>(62,587)</u>
Total	<u>6,266</u>	<u>(6,665)</u>	<u>4,858</u>
Loss before change in undistributed income of subsidiaries	(23,811)	(49,125)	(50,484)
Change in undistributed income of subsidiaries	<u>628,296</u>	<u>152,066</u>	<u>517,586</u>
NET INCOME ON REDEEMABLE COMMON SHARES	<u>\$ 604,485</u>	<u>\$ 102,941</u>	<u>\$ 467,102</u>

DCP HOLDING COMPANY (Parent Only)
Schedule I — Condensed Financial Information of Registrant
Condensed Statements of Cash Flow Information
For the Years Ended December 31, 2007, 2006 and 2005

	<u>2007</u>	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 604,485	\$ 102,941	\$ 467,102
Adjustments to reconcile net income to net cash provided by operating activities:			
Increase in undistributed income of subsidiaries	(628,296)	(152,066)	(517,586)
Deferred income taxes	(92,116)	(10,825)	(62,587)
Deferred compensation	288,704	127,670	
Effects of changes in operating assets and liabilities:			
Accounts receivable	(169,915)	45,225	(53,458)
Accounts payable	46,694	43,760	75,153
Accrued expense	72,177	(6,834)	633,259
Federal income tax payable	58,599	(18,896)	67,381
Other, net	(149,044)	(80,430)	(80,351)
Net cash provided by operating activities	<u>31,288</u>	<u>50,545</u>	<u>528,913</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment in subsidiaries		(25,000)	(390,621)
Dividend received from subsidiary			250,000
Net cash used in investing activities		<u>(25,000)</u>	<u>(140,621)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of intercompany note payable	(80,000)		
Repayment of intercompany note payable			(50,000)
Repurchase of redeemable common shares	(62,174)	(140,567)	(12,431)
Issuance of redeemable common shares	265,863	35,022	
Net cash provided by (used in) financing activities	<u>123,689</u>	<u>(105,545)</u>	<u>(62,431)</u>
INCREASE (DECREASE) IN CASH	154,977	(80,000)	325,861
CASH — Beginning of period	250,180	330,180	4,319
CASH — End of period	<u>\$ 405,157</u>	<u>\$ 250,180</u>	<u>\$ 330,180</u>
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid for interest		158	
Redeemed common shares in other current liabilities	62,644	50,753	

SCHEDULE I — PARENT COMPANY FINANCIAL INFORMATION
NOTES TO CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Parent company financial information has been derived from our consolidated financial statements and excludes the accounts of all operating subsidiaries. This information should be read in conjunction with our consolidated financial statements.

Parent company maintains its investment in all subsidiaries on the equity method.

2. TRANSACTIONS WITH SUBSIDIARIES

Management Fee

Through intercompany service agreements approved, if required, by state regulatory agencies, our parent company charges a management fee for reimbursement of certain centralized services provided to its subsidiaries including information systems, disbursement, investment and cash administration, marketing, legal, finance, and executive management oversight.

Dividends

Our subsidiary, Dental Care Plus, declared dividends to the parent company of \$250,000 in 2005. There were no dividends declared during 2007 or 2006.

3. ACQUISITIONS

Refer to Note 2 of the notes to consolidated financial statements in the Form 10-K for a description of acquisitions.

DCP HOLDING COMPANY AND SUBSIDIARIES
Schedule II — Valuation and Qualifying Accounts
For the Years Ended December 31, 2007, 2006 and 2005

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Charged to Costs and Expenses</u>	<u>Charged to Other Accounts</u>	<u>Deductions</u>	<u>Balance at End of Period</u>
Year ended December 31, 2007:					
Allowance for Uncollectible Accounts Receivable	\$37,403	\$13,840		\$47,744	\$ 3,499
Year ended December 31, 2006:					
Allowance for Uncollectible Accounts Receivable	83,214	10,490	\$(25,058)(a)	31,243	37,403
Year ended December 31, 2005:					
Allowance for Uncollectible Accounts Receivable	14,071	26,922	53,365(a)	11,144	83,214

(a) Allowance for receivables on acquired assets from Adenta acquisition.

(3) *Exhibits:*

See the List of Exhibits on the Index to Exhibits following the signature page.

(b) The exhibits listed on the Index to Exhibits are filed as part of or incorporated by reference into this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DCP Holding Company

<u>/s/ Robert C. Hodgkins, Jr.</u> Robert C. Hodgkins, Jr.	Vice President and Chief Financial Officer (Principal Financial and Accounting)	March 12, 2008
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<u>/s/ Anthony A. Cook</u> Anthony A. Cook	President and Chief Executive Officer (Principal Executive Officer)	March 12, 2008
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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated.

<u>/s/ Stephen T. Schuler</u> Stephen T. Schuler	Chairman of the Board of Directors	March 12, 2008
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<u>/s/ Roger M. Higley</u> Roger M. Higley	Vice Chairman of the Board of Directors	March 12, 2008
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<u>/s/ Fred J. Bronson</u> Fred J. Bronson	Secretary	March 12, 2008
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<u>/s/ Fred H. Peck</u> Fred H. Peck	Treasurer	March 12, 2008
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<u>/s/ Michael Carl</u> Michael Carl	Director	March 12, 2008
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<u>/s/ Jack M. Cook</u> Jack M. Cook	Director	March 12, 2008
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<u>/s/ Ross A. Geiger</u> Ross A. Geiger	Director	March 12, 2008
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<u>/s/ David A. Kreyling</u> David A. Kreyling	Director	March 12, 2008
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<u>/s/ James E. Kroeger</u> James E. Kroeger	Director	March 12, 2008
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<u>/s/ Donald J. Peak</u> Donald J. Peak	Director	March 12, 2008
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<u>/s/ Molly Meakin-Rogers</u> Molly Meakin-Rogers	Director	March 12, 2008
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<u>/s/ Mark Zigoris</u> Mark Zigoris	Director	March 12, 2008
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INDEX TO EXHIBITS

<u>Exhibit Number</u>	<u>Description of Document</u>
3.1	Amended and Restated Articles of Incorporation. (incorporated by reference to Exhibit 3.1 to the Company's Form 10 registration statement filed on May 1, 2006)
3.2	Amended and Restated Code of Regulations. (incorporated by reference to Exhibit 3.2 to the Company's Form 10 registration statement filed on May 1, 2006)
10.1	Employment Agreement between DCP Holding Company and Anthony A. Cook effective January 1, 2006. (incorporated by reference to Exhibit 10.1 to the Company's Form 10 registration statement filed on May 1, 2006)
10.2	Dental Care Plus, Inc. and DCP Holding Company Deferred Compensation Plan, amended and restated, filed herewith
10.3	2006 Dental Care Plus Management Equity Incentive Plan, amended and restated, filed herewith
10.4	Master Equipment Lease Agreement dated October 1, 2004 between The Fifth Third Leasing Company and Dental Care Plus, Inc. (incorporated by reference to Exhibit 10.4 to the Company's Form 10 registration statement filed on May 1, 2006)
10.5	Open-End Mortgage and Security Agreement dated June 12, 2003 in favor of Fifth Third Bank (incorporated by reference to Exhibit 10.5 to the Company's Form 10 registration statement filed on May 1, 2006)
10.6	Assignment of Rents and Leases dated June 12, 2003 between Dental Care Plus, Inc. and Fifth Third Bank (incorporated by reference to Exhibit 10.6 to the Company's Form 10 registration statement filed on May 1, 2006)
10.7	Form of Self-Insured Employer Group Contract (incorporated by reference to Exhibit 10.7 to Amendment No. 1 to the Company's Form 10 registration statement filed on August 11, 2006)
10.8	Form of Fully-Insured Employer Group Contract (Employer-Sponsored) (incorporated by reference to Exhibit 10.8 to Amendment No. 1 to the Company's Form 10 registration statement filed on August 11, 2006)
10.9	Form of Fully-Insured Employer Group Contract (Employee-Voluntary) (incorporated by reference to Exhibit 10.9 to Amendment No. 1 to the Company's Form 10 registration statement filed on August 11, 2006)
10.10	Summary of Director Compensation, filed herewith
14.1	Code of Ethics for Senior Financial Officers, filed herewith (incorporated by reference to Exhibit 14.1 to the Company's Form 10-K Annual Report filed on March 30, 2007)
21.1	List of Subsidiaries. (incorporated by reference to Exhibit 21.1 to the Company's Form 10 registration statement filed on May 1, 2006)
31.1	Chief Executive Officer certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002, filed herewith.
31.2	Chief Financial Officer certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002, filed herewith.
32.1	Chief Executive Officer and Chief Financial Officer certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, filed herewith.

March 26, 2008

Dear DCP Holding Company Shareholder:

We invite you to attend our Annual Meeting of Shareholders on Wednesday, April 23, 2008, at 6:30 p.m., local time, at the Sharonville Convention Center, 11355 Chester Road, Sharonville, Ohio 45241.

At the meeting, we will ask you to elect six members of the Board of Directors. We will also review the progress of the Company during the past year and you will have the opportunity to ask questions. The attached Notice of Annual Meeting of Shareholders and Proxy Statement describes the business we will conduct and provides information about the Company that you should consider when you vote your shares.

On behalf of the Board of Directors, we would like to express our appreciation for your continued interest in the affairs of the Company. We look forward to greeting as many of our shareholders as possible.

Sincerely,



STEPHEN T. SCHULER, DMD
Chairman of the Board



ANTHONY A. COOK
President and Chief Executive Officer

SEC
Mail Processing
Section
MAR 27 2008
Washington, DC
101

DCP HOLDING COMPANY
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held on April 23, 2008

To Our Shareholders:

The Annual Meeting of Shareholders (the "Annual Meeting") of DCP Holding Company, an Ohio corporation (the "Company"), will be held on Wednesday, April 23, 2008, at 6:30 p.m., local time, at the Sharonville Convention Center, 11355 Chester Road, Sharonville, Ohio, for the following purposes:

1. To change the number of Directors to twelve.
2. To elect six members of the Board of Directors.
3. To transact such other business as may properly come before the meeting or any postponement or adjournment thereof.

Only shareholders of record of DCP Holding Company's Class A common shares at the close of business on March 7, 2008 are entitled to notice of and to vote at the Annual Meeting.

All shareholders are cordially invited to attend the Annual Meeting in person. However, to assure your representation at the Annual Meeting, please vote as soon as possible by completing, signing, dating and returning the enclosed proxy card as promptly as possible in the postage-prepaid envelope enclosed for that purpose. For further details, please see the section entitled "Voting" on page 1 of the accompanying Proxy Statement. Any shareholder attending the Annual Meeting may vote in person even if he or she has voted using the proxy card by revoking his or her proxy prior to the vote being taken.

By Order of the Board of Directors



FRED BRONSON, DDS
Secretary

Sharonville, Ohio
March 26, 2008

<p>IMPORTANT: WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE VOTE BY COMPLETING AND PROMPTLY RETURNING THE ENCLOSED PROXY CARD IN THE ENVELOPE PROVIDED.</p>
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DCP HOLDING COMPANY

PROXY STATEMENT

General

We are soliciting the enclosed proxy on behalf of the Company by our Board of Directors (the "Board") for use at our Annual Meeting of Shareholders (the "Annual Meeting") to be held on Wednesday, April 23, 2008, at 6:30 p.m., local time, and at any postponement or adjournment thereof, for the purposes set forth in this Proxy Statement and in the accompanying Notice of Annual Meeting of Shareholders. The Annual Meeting will be held at the Sharonville Convention Center, 11355 Chester Road, Sharonville, Ohio 45241, and the telephone number at that location is (513) 771-7744.

This proxy statement, together with the accompanying Notice of Annual Meeting of Shareholders and the enclosed proxy card and 2007 Annual Report to Shareholders, is being furnished to shareholders of DCP Holding Company (the "Company") in connection with the solicitation of proxies by our Board of Directors to be used at our Annual Meeting. The cost of this solicitation will be borne by the Company.

If you sign and return the enclosed proxy card, your vote will be cast as indicated on the card. Your presence at the Annual Meeting will not, in and of itself, revoke your proxy. However, you may revoke your proxy anytime before it is exercised by delivery to us of a new, later-dated proxy, or by giving written notice to us before or at the Annual Meeting. Notice of revocation of your proxy prior to the Annual Meeting should be delivered to DCP Holding Company, Secretary, at the Company's corporate headquarters, 100 Crowne Point Place, Sharonville, Ohio 45241-5427.

The Company is authorized to issue 7,500 Class A Redeemable Common Shares, without par value (hereinafter the "Class A Common Shares"), 100,000 Class B Redeemable Common Shares, without par value (hereinafter the "Class B Common Shares"), and 100,000 preferred shares, without par value. As of March 7, 2008, the record date for the determination of holders of Class A Common Shares entitled to notice of, and to vote at, the Annual Meeting, there were 651 Class A Common Shares outstanding that were held of record by 651 shareholders and 7,793 Class B Common Shares outstanding that were held of record by 680 shareholders. Class A Common Shares are entitled to one vote per share on all matters submitted to a vote of shareholders, but do not have the right to vote cumulatively in the election of directors. The Class B Common Shareholders do not have voting rights, except as provided by law. Class A Common Shares may be convertible into Class B Common Shares at any time at the option of and without cost to the shareholder. The Class B Common Shares do not have any conversion rights. There are no preferred shares issued or outstanding.

The holders of a majority of our outstanding Class A Common Shares on the record date must be present or represented by proxy at the Annual Meeting of Shareholders to constitute a quorum.

This proxy statement, the accompanying Notice of Annual Meeting of Shareholders and the enclosed proxy card and 2007 Annual Report to Shareholders are first being sent to shareholders on or about March 26, 2008.

Voting

How to vote. Class A shareholders may vote in person at the meeting or by proxy. We recommend you vote by proxy even if you plan to attend the meeting. If desired, provided that you have properly revoked your proxy (see above), you can change your vote at the meeting.

How proxies work. The Board of Directors is asking for your proxy. By giving a proxy you authorize the persons named to vote your shares at the meeting in the manner you direct. You may vote for all, some or none of the director candidates. All proxies properly signed will, unless a different choice is indicated, be voted "FOR" the proposal to set the number of directors at twelve and the election of all nominees for Directors proposed by the Board of Directors. Although we do not currently anticipate that any other matters will be raised at the meeting, if any other matters come before the meeting or any postponement or adjournment, each proxy will be voted in the discretion of the individuals named as proxies on the card.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the beneficial ownership of the Class A Common Shares and Class B Common Shares of DCP Holding Company as of March 7, 2008 for the following: (1) each person who is known by us to beneficially own more than 5% of the outstanding shares of DCP Holding Company's Class A Common Shares or Class B Common Shares; (2) each of our Named Executive Officers; (3) each of our directors; and (4) all of our directors and executive officers as a group.

NAME OF BENEFICIAL OWNER	Number and Class of Shares Beneficially Owned		Percent of Class	
	Class A	Class B	Class A	Class B
Fred J. Bronson	1	11	*	*
Michael Carl	1	11	*	*
Jack M. Cook	0	18	*	*
Ross A. Geiger	0	12	*	*
Roger M. Higley	1	21	*	*
David A. Kreyling	1	11	*	*
James E. Kroeger	0	12	*	*
Donald J. Peak	0	12	*	*
Fred H. Peck	1	11	*	*
Molly Meakin-Rogers	0	46	*	*
Stephen T. Schuler	1	54	*	*
Mark Zigoris	1	31	*	*
Anthony A. Cook	0	0	*	*
Robert C. Hodgkins, Jr.	0	0	*	*
Ann Young	0	0	*	*
Laura S. Hemmer	0	0	*	*
Jodi Fronczek	0	0	*	*
Directors and Officers as a group	7	250	1.08%	3.21%

* Less than one percent (1%)

PROPOSAL ONE

NUMBER OF DIRECTORS

In accordance with the Company's Code of Regulations the number of members of the Board of Directors may be fixed or changed at the Annual Meeting by the affirmative vote of a majority of the Class A Common Shares. The number of current directors is thirteen, with twelve directors currently serving. There is one vacancy on the Board created by the death of Dr. Sanford S. Scheingold in 2007. The Board of Directors has decided not to fill the vacancy and instead recommends that the shareholders change the number of directors to twelve.

PROPOSAL TWO

ELECTION OF DIRECTORS

Nominees

Our Board of Directors currently has twelve members and is divided into two classes, each comprised of six members. The members of each class are elected to serve a two-year term with the term of office for each class ending in consecutive years. At this year's Annual Meeting, the terms of our Class I directors will expire. The directors named below are the current Class I directors who have been nominated for re-election to the Board by a majority of the independent directors. The term of office of each person elected as a Class II director will continue until the 2010 Annual Meeting of Shareholders.

Your proxies cannot be voted for a greater number of persons than the number of nominees named in this proxy statement. If for any reason any of the nominees is not a candidate when the election occurs (which is not expected), the Board of Directors intends that proxies will be voted for the election of a substitute nominee designated by the Board of Directors as recommended by a majority of the independent directors. The following information is furnished with respect to each person nominated for election as a director.

Recommendation

The Board of Directors recommends that you vote "FOR" the election of the six nominees listed below.

DIRECTOR NOMINEES

<u>Name</u>	<u>Age</u>	<u>Period of Service as a Director</u>	<u>Term Expires in:</u>
Ross A. Geiger	41	2001 to date	2010
Roger M. Higley, DDS	69	2000 to date	2010
David A. Kreyling, DMD	54	1996 to date	2010
Donald J. Peak, CPA	53	2001 to date	2010
Michael Carl, DDS	48	2004 to date	2010
James E. Kroeger, MBA, CPA	52	2006 to date	2010

Ross A. Geiger has been a Vice President at Key Bank since 2007. Prior to joining Key Bank, Mr. Geiger was a Vice President for Wells Fargo Business Credit from 2004 to 2007. Mr. Geiger served as a Vice President at Fifth Third Bank from 1998 to 2004. Mr. Geiger received a Bachelor of Arts degree from the University of Cincinnati in 1990. He is a member of the Tristate Association for Corporate Renewal, the Association for Corporate Growth, the Turnaround Management Association, the Greater Cincinnati Venture Association and the Louisville Venture Club. Mr. Geiger is presently Chairman of the Board's Provider Fee Committee and serves on the Finance, Marketing and Product Development, Ad Hoc Shareholders/Share Evaluation and Ad Hoc Information Technology Committees.

Roger M. Higley, DDS has been engaged in the private practice of general dentistry in Cincinnati, Ohio since 1969. He is the Treasurer of Westwood United Methodist Church and has served in the past as a director and the Secretary of Westwood Homestead Bank, the Secretary of the Cincinnati Dental Society, the President of Gray Museum and the President of Kiwanis Club of Cheviot. Dr. Higley is currently Chairman of the Board's Provider Relations Committee and serves on the Audit, Nominating, Utilization Review and Quality Assurance, Compensation and Benefits, Governance and Credentialing Committees. Dr. Higley was named the Vice Chairman of the Company in January 2006.

David A. Kreyling, DMD has been engaged in the private practice of general dentistry in the Florence, Kentucky area since 1980 and has served as President of the Northern Kentucky Dental Society. Dr. Kreyling currently is Chairman of the Board's Benefits and Compensation Committee and serves on the Utilization Review and Quality Assurance and Finance Committees.

Donald J. Peak, CPA has been President of DJ Peak Consulting of Cincinnati, Ohio since 1992. Mr. Peak received a Bachelor of Science degree from Indiana State University. He is currently a member of the American Institute of Certified Public Accountants and the Healthcare Financial Management Association. Mr. Peak is presently Chairman of the Board's Finance Committee and the Ad Hoc Information Technology Committee. He also serves on the Board's Marketing and Product Development, Governance and Provider Fee Committees.

Michael Carl, DDS has been engaged in the private practice of general dentistry in Cincinnati, Ohio since 1986. He has served as Vice President and President of the Cincinnati Dental Society. Previously he was also a member of the Cincinnati Dental Society Nominating and Peer Review Committees. Dr. Carl has been a delegate with the Ohio Dental Association since 1998. He is a member of the Alpha Omega Dental Fraternity and served as President in 2001. Dr. Carl graduated from Ohio State University in 1985, which was followed by a general practice residency at Mt. Sinai Hospital in Cleveland, Ohio. He is a member of the Cincinnati Dental Association, Ohio Dental Association and the American Dental Association. He currently is the Chairman of the Credentialing Committee and serves on the Audit, Marketing and Product Development and Utilization Review and Quality Assurance Committees.

James E. Kroeger, MBA, CPA has been the Director of Internal Audit at The Midland Company since 2004. Prior to joining The Midland Company, he was a Firm Director in the Audit and Assurance practice of Deloitte & Touche LLP in Cincinnati, Ohio. He was with Deloitte approximately 25 years, specializing in auditing insurance and health care entities. He is currently a member of the Board of Governors of the University of Cincinnati Alumni Association. Mr. Kroeger currently is the Chairman of the Audit Committee and serves on the Finance and Provider Fee Committees.

Class II Directors — Terms Ending in 2009

Current Class II directors whose terms continue until the Annual Meeting of Shareholders in 2009:

<u>Name</u>	<u>Age</u>	<u>Period of Service as a Director</u>	<u>Expiration of Term for which Proposed</u>
Fred J. Bronson, DDS	73	1999 to date	2009
Jack M. Cook, MHA	63	2002 to date	2009
Fred H. Peck, DDS	47	1988 to date	2009
Molly Meakin-Rogers, MBA, CPA	50	1989 to date	2009
Stephen T. Schuler, DMD	60	1998 to date	2009
Mark Zigoris, DDS	71	1988 to date	2009

Dr. Bronson has been engaged in the private practice of general dentistry in the Cincinnati, Ohio area since 1962. He is presently the Chairman of the Board's Nominating Committee and serves on the Provider Relations and Credentialing Committees. Dr. Bronson has been Secretary of Dental Care Plus since March 10, 2004 and Secretary of the Company since the reorganization of Dental Care Plus.

Mr. Cook has been a senior consultant with the Compass Group in Cincinnati since 2001. Mr. Cook has also served as President and Chief Executive Officer of The Health Alliance of Greater Cincinnati, President of The Christ Hospital and founding president of the managed care network called Healthspan since his recruitment to Cincinnati in 1983. He attended the University of North Carolina and Duke University, earning a B.S. degree in Business and a Master's degree in Hospital Administration. Mr. Cook is presently Chairman of the Board's Governance Committee and serves on the Audit, Marketing and Product Development, Compensation and Benefits and Provider Fee Committees.

Dr. Peck has been engaged in the private practice of general dentistry in the Cincinnati, Ohio area since 1986. He is presently Chairman of the Board's Utilization Review and Quality Assurance Committee and serves on the Provider Relations, Ad Hoc Information Technology and Marketing and Product Development Committees. Dr. Peck has been Treasurer of Dental Care Plus since 1990 and the Treasurer of the Company since the reorganization of Dental Care Plus.

Ms. Rogers has been the Director of Reimbursement at St. Elizabeth Medical Center (SEMC) since 2000. Before joining SEMC, she served as a consultant to SEMC, as well as Johnson and Johnson and other local health care agencies. From 1987-1998 she was an Assistant Professor of Finance in the Masters of Health Administration Program at Xavier University. Ms. Rogers was employed by the accounting firm of Ernst & Whinney for eight years previous to her position with Xavier University. She is a Board member and Treasurer of Indian Hill Recreation Commission and a Board member of Carmel Manor Nursing Home. Ms. Rogers serves on the Board's Audit, Finance, Provider Fee, Nominating and Ad Hoc Information Technology Committees.

Dr. Schuler has been engaged in oral and maxillofacial surgery in the Northern Kentucky area since 1974. He is the President of Oral Facial Surgery Associates, a past President of the Kentucky Board of Dentistry, a past President of the Kentucky Society of Oral and Maxillofacial Surgery and a past Chairman of the Board of Kentucky Dental Association. Dr. Schuler is presently the Chairman of the Board of Directors of the Company and serves on the Finance, Compensation and Benefits, Governance and Credentialing Committees. Dr. Schuler was the Vice Chairman of Dental Care Plus from 2001-2005 and the Vice Chairman of the Company from the reorganization of Dental Care Plus through 2005. He became the Chairman of the Company effective January 2006.

Dr. Zigoris has been engaged in the specialty practice of periodontics since 1966 and has served as Professor and Chairman of the Department of Periodontics from 1966 to 1983 at the University of Louisville School of

Dentistry, and as Professor and Chairman of the Department of Preventative Dental Sciences at King Saud University, Saudi Arabia, from 1983 to 1986. He has been engaged in the private practice of periodontics in the Cincinnati, Ohio area since 1986. He is currently the President of the Sycamore Glen Condominium Owners Association and a member of the Board of Directors of the Buckeye Scholarship Foundation and of VP — AHEPA.127 Inc. (a senior citizen housing project). Dr. Zigoris is presently Chairman of the Board's Marketing and Product Development Committee and serves on the Utilization Review and Quality Assurance, Provider Relations and Ad Hoc Shareholders/Share Evaluation Committees.

Director Independence

Our Board of Directors has determined that each of the following members is an "independent director" as defined by the listing standards of The Nasdaq Stock Market: Jack M. Cook, Ross A. Geiger, James E. Kroeger, Donald J. Peak, and Molly Meakin-Rogers. The following directors are not an "independent director" as defined by the listing standards of The Nasdaq Stock Market due to their status as a participating provider with Dental Care Plus, Inc.: Fred J. Bronson, Michael Carl, Roger Higley, David A. Kreyling, Fred H. Peck, Stephen T. Schuler and Mark Zigoris.

Meetings and Committees

Our Board of Directors held a total of twelve meetings during 2007 and also took certain actions by written consent. No incumbent director during the last year attended fewer than 75% of the aggregate of (i) the total number of meetings of the Board of Directors (held during the period for which she or he has been a director) and (ii) the total number of meetings held by all committees on which he or she served. We invite, but do not require, our directors to attend the Annual Meeting. All of our directors attended the 2007 Annual Meeting of Shareholders.

Our Board appoints committees to help carry out its duties. In particular, Board committees work on key issues in greater detail than would be possible at full Board meetings. Each committee reviews the results of its meetings with the full Board. Our Board of Directors has five standing committees: Audit, Finance, Nominating, Compensation and Benefits, and Governance.

Audit Committee. The Audit Committee's members are James E. Kroeger, MBA, CPA, Chairman, Molly Meakin-Rogers, MBA, CPA, Roger M. Higley, DDS, Michael J. Carl, DDS, Jack M. Cook, MHA. The Committee met ten times in 2007. The Audit Committee is responsible for facilitating the Board of Directors' financial oversight responsibilities for DCP Holding Company. The Committee is also responsible for appointing, retaining, compensating, overseeing, evaluating and terminating the Company's independent auditors. The Audit Committee alone has the authority to approve all audit engagement fees and terms, as well as all non-audit engagements with the independent auditors. The independent auditors report directly to the Audit Committee. The Audit Committee also prepares the Audit Committee Report as it appears in this Proxy Statement. The Board of Directors has determined that Mr. Kroeger is an "audit committee financial expert", as defined under Regulation S-K Item 407(d)(5). In addition, Mr. Kroeger meets the independence standards applicable to Audit Committee members under SEC's rules for companies listed on the Nasdaq Stock Market. Mr. Cook, Mr. Kroeger and Ms. Rogers are "independent" as such term is defined for audit committee members by the listing standards of The Nasdaq Stock Market. The Audit Committee has a charter. The charter is not available on the Company's website. However, it was provided as an attachment to last year's proxy statement.

Finance Committee. The Finance Committee's members are Donald J. Peak, CPA, Chairman, Stephen T. Schuler, DMD, Molly Meakin-Rogers, MBA, CPA, David A. Kreyling DMD, James E. Kroeger, MBA, CPA and Ross Geiger. The Committee met twelve times in 2007. The Finance Committee is responsible for assisting the Board of Directors in fulfilling its responsibilities for reviewing and monitoring financial performance, budget development and strategic financial planning of the Company and its subsidiaries. The Finance Committee also: (a) provides advice and counsel as requested by management in the review of opportunities for investment in businesses anticipated to contribute to the Company's growth and profit objectives; (b) provides advice and counsel as requested by management in the review of decisions on significant investment in the Company's business, such as real estate, buildings, equipment and technology and (c) reviews and makes a recommendation to the full Board

regarding the Company's investment to the extent a business or investment opportunity is financially or strategically material to the Company.

Benefits and Compensation Committee. The Benefits and Compensation Committee's (the "Committee") members are David A. Kreyling, DMD, Chairman, Roger M. Higley, DDS, Stephen T. Schuler, DMD, Jack M. Cook, MHA, and Molly Meakin-Rogers, MBA, CPA. The Committee does not have a charter. The Committee is responsible for discharging the responsibilities of the Board with respect to the compensation of our executive officers. The Committee sets performance goals and objectives for the chief executive officer and the other executive officers, evaluates their performance with respect to those goals and sets their compensation based upon the evaluation of their performance. In evaluating executive officer pay, the Committee may retain the services of a compensation consultant and consider recommendations from the Chief Executive Officer and the Chairman of the Board with respect to goals and compensation of the other executive officers. The Committee also periodically reviews director compensation. All decisions with respect to executive and director compensation are approved by the Committee and recommended to the full Board for ratification. The Committee is responsible for administering our management equity incentive plans. The Committee also periodically reviews compensation and equity-based plans and makes its recommendations to the Board with respect to these areas. The Committee met eleven times in 2007.

The Benefits and Compensation Committee: (a) reviews and establishes the compensation and benefits for the Company's Named Executive Officers (defined below) and reports these decisions to the Board of Directors; (b) reviews the compensation and benefits for the Company's other senior executive officers; (c) reviews the design of and administers, as appropriate, the Company's broad-based incentive plans; (d) determines and establishes the appropriate retirement and severance packages and benefits to be given by the Company to our Named Executive Officers; (e) monitors the conformity of the aforementioned compensation and incentive packages with various laws and regulatory considerations pertaining to compensation matters; and (f) prepares the Report of Benefits and Compensation Committee for inclusion in this Proxy Statement. Jack M. Cook is "independent" as such term is defined by the listing standards of The Nasdaq Stock Market.

Governance Committee. The Governance Committee's members are Jack M. Cook, MHA, Chairman, Stephen T. Schuler, DMD, Roger Higley, DDS, and Donald J. Peak, CPA. The Governance Committee held three meetings during 2007. The Governance Committee: (a) reviews the independence and other qualifications of Board members, considering questions of possible conflicts of interest among Board members or management and DCP Holding Company and its subsidiaries, and monitoring all other activities of Board members or management that could interfere with such individuals' duties to DCP Holding Company; (b) provides periodic review of Board performance and reports its findings to the Board; and (c) makes recommendations to the Board concerning the composition, size, structure and activities of the Board and its committees. The Governance Committee includes Jack M. Cook who meets the independence requirements of The Nasdaq Stock Market.

Nominating Committee. The Nominating Committee's members are Fred J. Bronson, DDS, Chairman, Molly Meakin-Rogers, MBA, CPA, David A. Kreyling, DMD and Michael J. Carl, DDS. The Nominating Committee met twice in 2007. The Nominating Committee does not have a charter. Its function is to recommend to the full Board of Directors persons to be nominated for election as directors. The Nominating Committee will consider nominees recommended by holders of Class A Common Shares (each an "Eligible Nominating Shareholder"), provided that such nominations are submitted in writing to Stephen T. Schuler, DMD, 100 Crowne Point Place, Sharonville, Ohio 45241, not later than February 1 preceding the Annual Meeting. In its evaluation the Committee does not distinguish between nominees identified by the Nominating Committee and nominees recommended by shareholders.

Director Nomination Process

The Nominating Committee has adopted a policy regarding director nominations (the "Policy"). The Policy establishes qualifications and factors for selection of persons to be nominated to serve as directors. Those factors reflect the Nominating Committee's belief that a candidate for the Board should demonstrate experience or expertise needed to offer meaningful and relevant advice and guidance to management, possess the proven ability to exercise sound business judgment, and have consistently demonstrated the highest personal integrity and ethics. The Nominating Committee evaluates candidates taking into consideration, among other things, the current

composition of the Board, the Company's operations and its plan for the future, long-term interests of the Company and its shareholders, and the need to maintain a balance of knowledge, experience, and capabilities. The Policy is subject to periodic review and amendment by the Nominating Committee in consultation with other independent directors serving on the Company's Board.

The Policy provides that the Nominating Committee will consider candidates who are duly recommended in writing by Eligible Nominating Shareholders. Each such submission must include a statement of the qualifications of the nominee, a consent signed by the nominee evidencing a willingness to serve as a director if elected, a commitment by the nominee to meet personally with the Nominating Committee. In addition, in order for a recommendation to be considered by the Nominating Committee, the Recommendation Notice must contain, at a minimum, the following: the name, address, and telephone number of the Eligible Nominating Shareholder making the recommendation; the full legal name, address and telephone number of the individual being recommended, together with a reasonably detailed description of the background, experience and qualifications of that individual; a written acknowledgment by the individual being recommended that he or she has consented to that recommendation and consents to the Company's undertaking of an investigation into that individual's background, experience and qualifications in the event that the committee desires to do so; any information not already provided about the person's background, experience and qualifications necessary for the Company to prepare the disclosure required to be included in the Company's proxy statement about the individual being recommended; the disclosure of any relationship of the individual being recommended with the Company or any of its subsidiaries or affiliates, whether direct or indirect; the disclosure of any relation of the individual being recommended with the Eligible Nominating Shareholder, whether direct or indirect, and, if known to the Eligible Nominating Shareholder, any material interest of such Eligible Nominating Shareholder or individual being recommended in any proposals or other business to be presented at the Company's Annual Meeting of Shareholders (or a statement to the effect that no material interest is known to such Eligible Nominating Shareholder).

The Nominating Committee determines, and reviews with the Board of Directors on an annual basis, the desired skills and characteristics for directors as well as the composition of the Board of Directors as a whole. This assessment considers the directors' qualifications and independence, as well as diversity, age, skill and experience in the context of the needs of the Board of Directors. At a minimum, directors should share the values of the Company and should possess the following characteristics: high personal and professional integrity; the ability to exercise sound business judgment; an inquiring mind; and the time available to devote to Board of Directors' activities and the willingness to do so. In addition to the foregoing considerations, generally with respect to nominees recommended by shareholders, the Nominating Committee will evaluate such recommended nominees considering the additional information regarding them contained in the recommendation notices. When seeking candidates for the Board of Directors, the Committee may solicit suggestions from incumbent directors and management. Ultimately, the Nominating Committee will recommend to the Board of Directors prospective nominees who the Nominating Committee believes will be effective, in conjunction with the other members of the Board of Directors, in collectively serving the long-term interests of the Company's shareholders.

To date, the Nominating Committee has not paid a fee to a third party for assistance in identifying and evaluating prospective nominees to stand for election to the Board of Directors. However, the Nominating Committee reserves the right to retain such services in the best interests of DCP Holding Company and its shareholders.

Communications with the Board of Directors

If you wish to communicate with the Board of Directors, you should mail a written statement of the purpose and substance of your desired communication to: DCP Holding Company, 100 Crowne Point Place, Cincinnati, Ohio 45241, Attention: Corporate Secretary. Your communication will be reviewed to determine its appropriateness by our Corporate Secretary. Our Corporate Secretary reserves the right not to forward to directors any abusive, threatening or otherwise inappropriate materials.

Required Vote

The six nominees receiving the highest number of votes of the shares present or represented and entitled to be voted shall be elected as directors. Votes withheld from any director are counted for purposes of determining the presence or absence of a quorum for the transaction of business but have no other legal effect under Ohio law.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The primary role of the Audit Committee is to provide oversight and monitoring of DCP Holding Company's management and the independent registered public accounting firm and their activities with respect to DCP Holding Company's financial reporting process. In accordance with its written charter, the Audit Committee assists the Board of Directors in fulfilling its responsibility relating to corporate accounting, reporting practices of the Company, and the quality and integrity of the financial reports and other financial information provided by the Company to any governmental body or to the public. Management is responsible for the financial statements and the reporting process, including the system of internal controls. The independent registered public accounting firm is responsible for expressing an opinion on the conformity of the audited financial statements with generally accepted accounting principles. In the performance of its oversight function, the Audit Committee has:

- reviewed and discussed the Company's audited financial statements for the year ended December 31, 2007, with management;
- discussed with Deloitte & Touche LLP the matters required to be discussed by Statement on Auditing Standards No. 114, as amended (AICPA Professional Standards, Vol. 1 AU Section 380) as adopted by the Public Company Accounting Oversight Board in Rule 3200T;
- received from Deloitte & Touche LLP a formal written statement describing all relationships between Deloitte & Touche LLP and the Company that might affect the auditors' independence as required by Independence Standards Board the Standard No. 1 as adopted by the Public Company Accounting Oversight Board in Rule 3600T; and
- discussed with Deloitte & Touche LLP any relationships that may affect their objectivity and independence.

Based upon the review and discussions described in this Report, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, for filing with the Securities and Exchange Commission.

THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

James E. Kroeger, MBA, CPA, Chairman
Michael Carl, DDS
Jack M. Cook, MHA
Roger M. Higley, DDS
Molly Meakin-Rogers, MBA, CPA

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The Benefits and Compensation Committee of the Board (the "Committee") oversees DCP Holding Company's executive officer compensation and equity-based programs. The Committee reviews and establishes the compensation and benefits for DCP Holding Company's Named Executive Officers (defined below) and reviews the principles and strategies that guide the design of compensation plans and benefit programs for the Company's other senior executive officers. The Committee is composed entirely of non-employee members of the Board.

Objectives of Compensation Program

The Company's compensation programs help recruit, retain and motivate a group of talented and diverse executives, rewarding them for profitable corporate performance and providing incentives for them to create short-term and long-term corporate stability and growth. Accordingly, the key components of the Company's compensation package for its executives are base salary, benefits, short-term incentive compensation and long-term incentives comprised of restricted share or unit awards. The level of these compensation components for the Company's Named Executive Officers is determined by the Committee.

The Committee's philosophy is that the Company will achieve its best results if its executives act and are rewarded as business owners. Ownership is not only about owning stock, but is also about being accountable for business results. Owners take initiative and responsibility for the assets of the business, including its employees. As executives progress to higher levels at the Company, their responsibilities and rewards will progress as well. Executive compensation programs affect all employees by setting general levels of compensation and helping to create an environment of goals, rewards and expectations. Because we believe the performance of every employee is important to our success, we are mindful of the effect of executive compensation and incentive programs on all of our employees.

We believe that the compensation of our executives should reflect their success as a management team, rather than individuals, in attaining key operating objectives, such as growth of membership, growth of operating revenue, growth of operating earnings and earnings per share and growth or maintenance of market share and long-term competitive advantage, and ultimately, in attaining an increased book value for our stock. We believe that the performance of the executives in managing our Company, considered in light of general economic and specific company, industry and competitive conditions, should be the basis for determining their overall compensation. We also believe that their compensation should not be based on the short-term performance of our stock, whether favorable or unfavorable, but rather that the price of our stock will, in the long-term, reflect our operating performance, and ultimately, the management of the Company by our executives. We seek to have the long-term performance of our stock reflected in executive compensation through our management equity incentive plan.

Elements of Compensation; Determination of Amounts

Elements of compensation for our executives include: salary, bonus, health, disability and life insurance, perquisites and restricted share unit awards. Base salaries are set for our executive officers at the regularly scheduled fall meeting of our Benefits and Compensation Committee. At this meeting, the Committee also approves and adopts the management equity incentive plan for the new fiscal year and typically grants restricted share unit awards to all of our executives and certain other eligible employees. These executives and other eligible employees have the option to elect to defer their restricted share unit awards under the Company's deferred compensation plan.

At the beginning of each fiscal year, it has been the practice of the Committee to review the history of all the elements of each executive's total compensation and compare the compensation of the executives with that of the executives in an appropriate market comparison group. Typically, the CEO makes compensation recommendations to the Committee with respect to the executives who report to him. Such executives are not present at the time of these deliberations. The Chairman of the Board then makes compensation recommendations to the Committee with respect to the CEO, who is absent from that meeting. The Committee may accept or adjust such recommendations and also makes the sole determination of the Chairman of the Board's compensation.

We pay each element of compensation to attract and retain the executive talent, reward annual performance and provide incentive for a balanced focus on long-term strategic goals as well as short-term performance. The amount of each element of compensation is determined by or under the direction of the Committee, which uses the following factors to determine the amount of salary and other benefits to pay each executive:

- performance against corporate and individual objectives for the previous year;
- difficulty of achieving desired results in the coming year;
- value of their unique skills and capabilities to support long-term performance of the Company;
- performance of their general management responsibilities; and
- contribution as a member of the executive management team.

These elements fit into our overall compensation objectives by helping to secure the future potential of our operations, facilitating our entry into new markets, providing proper compliance and regulatory guidance, and helping to create a cohesive team.

Our policy for allocating between long-term and currently paid compensation is to ensure adequate base compensation to attract and retain personnel, while providing incentives to maximize long-term value for our Company and our shareholders. Likewise, we provide cash compensation in the form of base salary to meet competitive salary norms and reward good performance on an annual basis and in the form of bonus compensation to reward superior performance against specific short-term goals. We provide restricted share unit non-cash compensation to reward longevity and increased share value. The following items of corporate performance are taken into account in setting compensation policies:

- membership, operating revenue and corporate earnings per our financial plan;
- achievement of our strategic objectives; and
- the book value of our common shares.

Compensation Consultant

Every two years, with the assistance of an independent compensation consultant, who reports directly to the Committee, the Committee evaluates the Company's plans and programs against current and emerging compensation practices in the insurance industry, legal and regulatory developments and corporate governance trends. In 2006, the review provided assurance that the Company's compensation programs are designed to help attract and retain the talent necessary to maintain its long history of strong growth, profitability and shareholder returns. While no compensation review was conducted in 2007, the Committee considered the results of the 2006 review in determining 2007 compensation.

The Committee annually examines the ongoing competitiveness of the Company's executive compensation programs, reviews both Company and individual executive performance and reports compensation levels for each Named Executive Officer to the Board. The Committee works to ascertain and establish competitive levels of base compensation, short-term incentive compensation and long-term incentive awards for the CEO, CFO and other Named Executive Officers of DCP Holding Company. Annually, the Committee:

- Reviews compensation levels of the CEO, CFO and other Named Executive Officers against surveys of leading peer group companies and a broader range of major insurance companies provide by our compensation consultants. As a part of this work, the Committee validates that total compensation paid is appropriate based on an analysis that compares the Company's performance to the performance of the peer group using publicly available financial performance measures.
- Ensures that a significant portion of the total compensation packages for the CEO, CFO and other Named Executive Officers are performance-based and that compensation opportunities are designed to create incentives for above-target performance and consequences for below-target performance.
- Approves the base salary compensation for the CEO, CFO and other Named Executive Officers.

- Approves the target level of non-equity incentive plan compensation for the CEO, CFO and other Named Executive Officers and the Company performance goals that must be achieved in order for the CEO, CFO and Other Named Executive Officers to receive all or a portion of their non-equity incentive compensation.
- Approves long-term incentive awards in the form of grants of restricted share units under the management equity incentive plan and the deferred compensation plan.

While the Committee is solely responsible for establishing the compensation level and components for the CEO, the CEO is responsible for evaluating the compensation level of the CFO and other Named Executive Officers and making compensation recommendations to the Committee. The CEO is also involved in establishing individual and departmental objectives and goals with the CFO and other Named Executive Officers and evaluating their performance on an annual basis.

Named Executive Officer Compensation

Base Salaries

It is the goal of the Committee to establish salary compensation for our executives based on our Company's operating performance relative to companies of comparable size in our industry over a three to five year period. In setting base salaries for fiscal 2007, the Committee reviewed the research provided by our compensation consultants with respect to the salary compensation of officers with comparable qualifications, experience and responsibilities at companies in their recommended peer group. The Committee established our target for the total compensation level of for the CEO, CFO and other Named Executive Officers of DCP Holding Company at the 50th percentile of the range of compensation for comparable position with comparable peer companies in our industry. We believe that this gives us the opportunity to attract and retain talented managerial employees both at the senior executive level and below. The Committee, in determining the base salaries for both the CEO and the CFO, considered several factors, including, but not limited to, the compensation payable to the chief executive officers and chief financial officers of various other companies, including other specialty insurance companies with comparable asset size and premium income.

Non-Equity Incentive Compensation

Near the end of fiscal 2005, the Committee adopted the 2006 management non-equity incentive plan. The management non-equity incentive plan is designed to reward our executives for the achievement of shorter-term financial goals, principally annual increases in plan membership, operating revenue and net operating income. These corporate goals are established at levels that the Committee determines are achievable but also a significant challenge for the executive management team. It is the practice of the Committee to establish these Company performance goals prior to the beginning of the applicable performance year. It is our general philosophy that management be rewarded for their performance as a team in the attainment of these goals, rather than individually. We believe that this is important to aligning our executives and promoting teamwork. Although each executive is eligible to receive an award under the plan, the granting of the awards to any individual or the executives as a group is entirely at the discretion of the Committee. The Committee may choose to award the bonus or not, and decide on the actual level of the award in light of all relevant factors after completion of the fiscal year.

In November of 2006, the Committee established the corporate goals for 2007: plan membership of approximately 230,000 dental members at December 31, 2007, operating revenue of approximately \$59 million for 2007, and net operating income of approximately \$1.9 million for 2007. Under the terms of this plan, the target bonus payable for the CEO was established at 30% of his fiscal 2007 base salary. The target bonus amount for the CFO and the other named executive officers, with the exception of Ms. Young, was established at 18% to 20% of each officer's fiscal 2007 base salary. These target bonus levels corresponded to our achievement of 100% of plan membership, operating revenue and net operating income as set forth in our financial plan for fiscal 2007. The target bonus level for Ms. Young, our Chief Sales and Marketing Officer, was established at \$15,000 per quarter and \$25,000 at the end of 2007 based on the achievement of specific plan membership and operating revenue performance goals for each quarter and profitability goals for the fiscal year as a whole.

In its discretion the Committee decided on February 20, 2008 to award the non-equity incentive compensation payments to the CEO, the CFO and the other Named Executive Officers for fiscal 2007 based upon the full or partial achievement of our plan membership, operating revenue and net operating income performance goals as established in the 2007 management non-equity incentive plan, which was previously approved by the Committee in November of 2006. The CEO was awarded a bonus equal to 28% of his base salary. The other Named Executive Officers, with the exception of Ms. Young, were awarded a bonus equal to 16% to 20% of their base salaries based on the full or partial achievement of the Company performance goals along with other personal and departmental performance metrics. The non-equity incentive plan payments awarded to Ms. Young were made on a quarterly basis during 2007 based on the achievement of our plan membership and operating revenue performance objectives and after the end of 2007 based on profitability.

Management Equity Incentive Plan

Our Management Equity Incentive Plan is the primary vehicle for offering long-term incentive compensation. We also regard our Management Equity Incentive Plan as a key retention tool. With respect to long-term incentive awards, the Committee implemented the 2006 DCP Holding Company Management Equity Incentive Plan, as amended, which ties a portion of executive compensation to restricted share unit awards that increase in value with the value of the Company's Common Share.

Beginning in 2006, the Committee granted to the CEO, the CFO and other Named Executive Officers a number of restricted share units ("RSUs") with a book value at the beginning of the year equal to approximately 5% of each individual's base salary. An executive or key employee must be an Company employee for more than one year before becoming eligible to receive RSU grants. These RSUs vest over the course of a four year period, with 10% vesting in year one, 20% vesting in year two, 30% vesting in year three and 40% vesting in year four. There are no performance criteria associated with the vesting of these RSUs. The only requirement for vesting is that the individual is an employee of the Company at the end of the vesting year in question.

Because of the evolution of regulatory, tax and accounting treatment of equity incentive programs and because it is important to us to retain our executive officers and key employees, we realized that it is important that our executive officers and key employees can elect to receive their restricted share units as deferred compensation in lieu of taxable restricted share awards. Accordingly, the Company established the DCP Holding Company Deferred Compensation Plan at the beginning of 2006. Under the terms of the deferred compensation plan, our executives and key employees can elect to defer a portion of their cash compensation and their granted RSUs as they vest. Because deferred cash compensation and deferred RSUs can appreciate in value on a tax-deferred basis, we believe that this is a more efficient way to reward them for and motivate them toward superior long-term performance.

Restricted Share Unit Awards Granted

We granted restricted share unit awards to our executives and key employees that represent approximately 5% of their base salary for 2007 fiscal year. These grants were made at the regularly scheduled meeting of the Committee which was held in December of 2006. The recommendations of the Committee were approved by the Board of Directors in December of 2006, and the fiscal 2007 awards were granted thereafter in January of 2007. Restricted share unit awards were also granted to our non-employee directors at the December 2006 meeting of our Board of Directors.

Perquisites

We limit the perquisites that we make available to our executives. Our executives are entitled to few benefits that are not otherwise available to all of our employees. In this regard it should be noted that we do not provide pension arrangements, post-retirement health coverage, or similar benefits for our executives or employees.

The perquisites we provided in fiscal 2007 are as follows: The CEO, CFO and Chief Marketing Officer received a monthly car allowance and the CEO was authorized to be reimbursed for club membership fees.

Our health and insurance plans are the same for all employees. In general, our employees pay 25% of the health premium due. Employees that elect to not participate in the Company's health insurance plan receive a monthly health care cost allowance of \$200.00. All employees who participated in our 401(k) plan received matching funds equal to 50% of the first 4% of their base salary that they elect to contribute into the 401(k) plan. All of our named executive officers participated in our 401(k) plan and received matching funds. All employees are allowed to receive cash for up to two weeks of unused vacation time.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Stock Awards (\$) (1)	Non-Equity Incentive Plan Compensation (\$) (2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) (3)	All Other Compensation (\$) (4)	Total (\$)
Anthony A. Cook	2007	\$267,050	\$3,090	\$80,262	\$5,306	\$38,551	\$394,259
President & CEO	2006	252,000	932	76,440	720	44,975	375,067
Robert C. Hodgkins, Jr.,	2007	176,723	2,303	31,860	575	16,456	227,917
Vice President & CFO	2006	160,192	725	32,000	21	12,683	205,621
Ann Young,	2007	102,859	1,412	85,000	2,005	10,008	201,284
Chief Marketing Officer	2006	93,000	466	72,947	252	9,633	176,298
Laura S. Hemmer	2007	114,453	1,569	20,592	401	8,880	145,895
Director — Information Technology	2006	103,767	518	19,300	15	9,955	133,555
Cynthia A. Law(5)	2007	111,603	0	20,165	0	0	131,768
Director — Operations	2006	38,152	0	6,900	0	0	45,052

- (1) For 2007 includes the 20% vesting of the 2006 restricted share unit awards and the 10% vesting of the 2007 restricted share unit awards.
- (2) The 2007 non-equity incentive plan compensation for the CFO and other Named Executive Officers is equal to 18% of their base salaries with the exception of Anthony A. Cook and Ann Young. The 2007 non-equity incentive plan compensation for the President & CEO is equal to 30% of his base salary. The 2007 non-equity incentive plan compensation for Ann Young is based on four quarterly bonuses of \$15,000 each and a \$25,000 year-end bonus tied to membership, revenue and profitability performance goals.
- (3) For 2007 includes the increase in the book value of the vested restricted share units from grant date to December 31, 2007 and the investment earnings from deferred cash compensation in 2007.
- (4) For 2007 includes:
 - Car allowances for: Anthony Cook, \$6,000, Robert Hodgkins, \$6,000, and Ann Young, \$5,400.
 - Health care credits for: Anthony Cook, \$2,400, and Ann Young, \$2,400.
 - 401(k) matching contributions for: Anthony Cook, \$5,509, Robert Hodgkins, \$3,648, Ann Young, \$2,208, and Laura Hemmer, \$2,280.
 - Cash payments in lieu of vacation time for: Anthony Cook, \$19,722, Robert Hodgkins, \$6,808, and Laura Hemmer, \$6,600.
 - Club membership fees for: Anthony Cook, \$4,920.
- (5) Cynthia Law became a Company employee on August 14, 2006. Therefore Cynthia Law was not eligible to be granted any restricted share units for 2007.

GRANTS OF PLAN-BASED AWARDS

Name	Board Approval Date	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards		
			Threshold (\$)	Target \$(1)	Maximum (\$)	Threshold (\$)	Target \$(2)	Maximum (\$)
Anthony A. Cook,	12/13/06	1/2/07	—	—	—	—	17,448	—
President and	12/13/06		—	84,900	—	—	—	—
Chief Executive Officer								
Robert C. Hodgkins, Jr.,	12/13/06	1/2/07	—	—	—	—	12,138	—
Vice President and	12/13/06		—	33,772	—	—	—	—
Chief Financial Officer								
Ann Young,	12/13/06	1/2/07	—	—	—	—	6,827	—
Chief Marketing Officer	12/13/06		—	85,000	—	—	—	—
Laura S. Hemmer,	12/13/06	1/2/07	—	—	—	—	7,586	—
Director — Information	12/13/06		—	21,828	—	—	—	—
Technology								
Cynthia A. Law,	12/13/06	—	—	20,931	—	—	—	—
Director — Operations								

(1) The non-equity incentive plan compensation target amount for Anthony Cook was established at 30% of his fiscal 2008 base salary of \$283,000. The non-equity incentive plan compensation target amounts for the CFO and the other named executive officers, with the exception of Ms. Young, was established at 18% of each officer's fiscal 2008 base salary. These compensation target levels correspond to our achievement of 100% of plan membership, operating revenue and net operating income as set forth in our financial plan for fiscal 2008. The non-equity incentive plan compensation target amount for Ms. Young, our Chief Sales and Marketing Officer, was established at \$15,000 per quarter and \$25,000 at the end of 2007 based on the achievement of specific plan membership and operating revenue performance goals for each quarter and for the fiscal year as a whole.

(see Non-Equity Incentive Compensation on page 11)

(2) Represents restricted share units granted to the Named Executive Officers pursuant to the Company's 2006 Dental Care Plus Management Equity Incentive Plan in January of 2007: Anthony A. Cook, 23 shares, Robert C. Hodgkins, Jr., 16 shares, Ann Young, 9 shares, Laura S. Hemmer, 10 shares.

Because each Named Executive Officer elected to defer receipt of these shares pursuant to the Company's Deferred Compensation Plan the shares have been treated as phantom shares pursuant to the Issuer's Deferred Compensation Plan. Each phantom share is the economic equivalent to one Class B Common Share and under the Deferred Compensation Plan will be settled in cash when each Named Executive Officer terminates his or her status as an employee of the Company. The phantom shares vest over a period of 4 years on the anniversary of the date of grant as follows: January 2007 grants — 10% 2007, 20% 2008, 30% 2009, 40% 2010.

The amounts reflected above assume a future book value per Class B Common Share for the January 2007 grants of \$758.61 as of 12/31/2010.

(see Management Equity Incentive Plan on page 12)

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Name	Restricted Share Unit Awards	
	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested (#)(1)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested \$(2)
Anthony A. Cook, <i>President & CEO</i>	33.3	\$20,021
Robert C. Hodgkins, Jr., <i>Vice President & CFO</i>	24.2	14,550
Ann Young, <i>Chief Marketing Officer</i>	14.4	8,658
Laura S. Hemmer, <i>Director — Information Technology</i>	16.0	9,620
Cynthia A. Law, <i>Director — Operations</i>	0.0	0

(1) Reflects the number of granted and unvested restricted share units ("RSUs") at December 31, 2007.

Anthony A. Cook 2006 grant, 12.6 RSUs unvested; 2007 grant, 20.7 RSUs unvested

Robert C. Hodgkins, Jr. 2006 grant, 9.8 RSUs unvested; 2007 grant, 14.4 RSUs unvested

Ann Young 2006 grant, 6.3 RSUs unvested; 2007 grant, 8.1 RSUs unvested

Laura S. Hemmer 2006 grant, 7.0 RSUs unvested; 2007 grant, 9.0 RSUs unvested

(Cynthia A. Law became a Company employee on August 14, 2006 and is not yet eligible to be granted RSUs.)

(2) The values of the granted and unvested RSUs are based on the book value of a Class B Common Share at December 31, 2007 of \$601.23. Depending on the Company's performance, the book value will be different at the time of vesting. For example, the book value of the Class B redeemable common share was \$518.05 and \$532.82 on December 31, 2005 and December 31, 2006, respectively.

(see Management Equity Incentive Plan on page 12)

OPTIONS EXERCISES AND RESTRICTED SHARE UNITS VESTED

Name	Restricted Share Unit Awards	
	Number of RSUs Acquired on Vesting (#)	Value Realized on Vesting \$(1)
Anthony A. Cook, <i>President & CEO</i>	7.7	\$4,629
Robert C. Hodgkins, Jr., <i>Vice President & CFO</i>	5.8	3,487
Ann Young, <i>Chief Marketing Officer</i>	3.6	2,164
Laura S. Hemmer, <i>Director — Information Technology</i>	4.0	2,405
Cynthia A. Law, <i>Director — Operations</i>	0.0	0

(1) The values of the granted and vested restricted share units ("RSUs") are based on the book value of a Class B Common Share at December 31, 2007 of \$601.23.

Post-Employment Compensation

Pension Benefits

We do not provide pension arrangements or post-retirement health coverage for our executives or employees. Our executive officers are eligible to participate in our 401(k) contributory defined contribution plan. In any plan year, we will contribute to each participant a matching contribution equal to 50% of the first 4% of the participant's compensation that has been contributed to the plan. All executive officers and named executives participated in our 401(k) plan during fiscal 2006 and received matching contributions.

Non-Qualified Deferred Compensation

Name and Principal Position	Executive Contributions in Last Fiscal Year-End (1)	Registrant Contributions in Last Fiscal Year-End (2)	Aggregate Earnings in Last Fiscal Year-End (3)	Aggregate Withdrawals/Distributions	Aggregate Balance at Last Fiscal Year-End
Anthony A. Cook, <i>President and Chief Executive Officer</i>	\$34,030	\$3,090	\$5,306	—	\$69,010
Robert C. Hodgkins, Jr., <i>Vice President and Chief Financial Officer</i>	—	2,303	575	—	3,624
Ann Young, <i>Chief Sales and Marketing Officer</i>	12,987	1,412	2,005	—	25,724
Laura S. Hemmer, <i>Director — Information Technology</i>	—	1,569	401	—	2,503
Cynthia A. Law, <i>Director — Operations</i>	—	—	—	—	—

(1) Includes deferred salary and bonus compensation in 2007.

(2) Includes granted restricted share unit awards that vested in 2007.

(3) Includes investment earnings on deferred cash compensation (1) and the increase in the book value of a Class B Common Share associated with the granted and vested restricted share unit awards.

Other Post-Employment Payments

All of our employees are employees-at-will and as such do not have employment agreements with us, except in the case of Anthony A. Cook, President & CEO. We also do not provide post-employment health coverage or other benefits; provided, however, upon termination of employment each Named Executive Officer is entitled to a lump sum payment for unused vacation time based on the Named Executive Officer's current salary.

Employment Agreement

In the first quarter of 2007, we extended the 2006 Employment Agreement with Anthony A. Cook through December-31, 2007. This agreement provides for certain benefits upon an involuntary termination of employment, other than for cause. In the event that the Company is sold, transferred and/or merged with another entity, it shall be not be deemed an event of good cause to terminate the CEO. The benefits to be received by the CEO whose employment is terminated without good cause include: receipt of a severance pay for up to 12 months at the CEO's then current monthly salary, eligibility to receive a bonus based on up to 30% of the severance pay amount, continuation of health, life and disability benefits for eight months after the termination of employment.

If a termination of the employment of the CEO without good cause had occurred as of December 31, 2007, we estimate that the value of the benefits under this Employment Agreement would have been as follows:

Name	Severance Pay(1)	Continuation of Benefits(2)
Anthony A. Cook, President & CEO	\$349,191	\$39,744

(1) Severance pay based on base salary and bonus potential for the 2008 fiscal year.

(2) Based on continuation of 401(k) match, healthcare credit, car allowance, vacation pay and other perquisites.

DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash (\$)	Stock Awards \$(1)	Change in Pension Value and Nonqualified Deferred Compensation Earnings \$(3)	Total (\$)
Stephen T. Schuler, DMD, <i>Chairman of the Board</i>	\$33,330	\$11,722	\$6,581	\$51,633
Sanford S. Scheingold, DDS, <i>Chairman Emeritus</i>	17,733	—	547	18,280
Roger M. Higley, DDS, <i>Vice Chairman of the Board</i>	23,150	11,722	3,583	38,455
Fred H. Peck, DDS, <i>Treasurer</i>	17,250	11,722	2,052	31,024
Fred J. Bronson, DDS, <i>Secretary</i>	16,250	11,722	2,052	30,024
Michael Carl, DDS,	20,700	11,722	2,052	34,474
Jack M. Cook, MHA	20,700	11,722	2,052	34,474
Ross A. Geiger	17,400	11,722	2,052	31,174
David A. Kreyling, DMD	23,600	11,722	2,052	37,374
James E. Kroeger, MBA, CPA	21,850	11,722	2,052	35,624
Donald J. Peak, CPA	19,950	11,722	2,052	33,724
Molly Meakin-Rogers, MBA, CPA	22,650	11,722	2,052	36,424
Mark Zigoris, DDS,	16,550	11,722	2,052	30,324

- (1) Includes the grant of 22 restricted share units ("RSUs") to all directors.
- (2) Includes investment earnings on deferred cash compensation for Dr. Schuler and Dr. Higley and the increase in the book value of a Class B Common Share associated with the vested restricted share unit awards.

Overview of Director Compensation and Procedures

Director compensation is the responsibility of the Governance Committee (the "Committee"). The director compensation objectives and principles established by the Committee are that: (1) directors should be appropriately compensated for their time and effort; and (2) director compensation should be approached on an overall basis, should motivate behavior and be aligned with the long-term interest of the shareholders. The Committee reviews the level of compensation of our directors every two years. To determine how appropriate the current level of compensation for our directors is, we have historically obtained data from a number of different sources including:

- publicly available data describing director compensation in peer companies;
- information obtained from the National Association of Corporate Directors.

The Committee has determined that the compensation of our directors for 2007 is within the bottom quartile of the compensation of directors of companies of comparable size in our industry.

Director Compensation

We compensate non-employee members of the Board through a combination of cash and equity-based compensation. In 2007, Company directors \$7,200 per year for serving as a member of our Board of Directors. They also received \$450 for each regular or special Board of Directors' meeting attended. In addition, we paid directors serving on committees the following:

Chairman -	\$400 per meeting
Committee Member -	\$300 per meeting

Our directors may defer receipt of some or all of their annual fees, attendance fees and committee fees under The DCP Holding Company / Dental Care Plus, Inc. Deferred Compensation Plan (the "Plan"). Under this Plan, directors may either invest deferred compensation in DCP Holding Company stock equivalents or in a tax-managed mutual fund.

In December of 2006, our directors each were granted a restricted share unit award for 2007 entitling each of them to receive 22 restricted share units with a book value of \$532.82 per unit as of December 31, 2006. Ten of the twelve directors elected to defer this compensation until termination of Board membership. Two of the twelve directors elected not to defer this compensation. These two directors are to be issued 22 DCP Holding Company Class B Redeemable Common Shares. The vesting of these restricted share unit awards was conditioned upon the attendance by each director of at least 75% of their scheduled meetings during 2007. In January of 2008, DCP Holding Company management determined that all twelve Board members met the 75% attendance requirement for 2007. Accordingly, all of these restricted share awards are now fully vested.

REPORT OF BENEFITS AND COMPENSATION COMMITTEE

The Benefits and Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis (the "CD&A") with management for the year ended December 31, 2007. Based on the reviews and discussions referred to above, the Committee recommended to the Board that the CD&A be included in this Proxy Statement.

By the Benefits and Compensation Committee of the Board of Directors:

David A. Kreyling, DMD, Chairman
Stephen T. Schuler, DMD
Jack M. Cook, MHA
Roger M. Higley, DDS
Molly Meakin-Rogers, MBA, CPA

BENEFITS AND COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Our Benefits and Compensation Committee currently consists of David A. Kreyling, DMD, Jack M. Cook, MHA, Roger M. Higley, DDS, Stephen T. Schuler, DMD and Molly Meakin-Rogers, MBA, CPA. No interlocking relationship exists between any member of our Board of Directors or Benefits and Compensation Committee and any member of the board of directors or compensation committee of any other company, nor has any such interlocking relationship existed in the past. No member of the Benefits and Compensation Committee is or was formerly an officer or an employee of DCP Holding Company.

TRANSACTIONS WITH RELATED PERSONS, PROMOTERS AND CERTAIN CONTROL PERSONS

Transactions with Related Persons

None. Seven members of the Company's Board of Directors are participating providers in the Company's dental plans, none of which received claims payments in excess of \$120,000 in 2007.

Review, Approval or Ratification of Transactions with Related Persons

A related party transaction is a transaction required to be disclosed pursuant to Item 404 of Regulation S-K or any other similar transaction involving (i) the Company and the Company's subsidiaries and (ii) any Company employee, officer, director (including a nominee), 5% shareholder or an immediate family member of any of the foregoing without regard to the dollar amount involved.

It is also the policy of the Company that a related party transaction as defined above will not be prohibited merely because it is required to be disclosed or because it involves related parties. Instead, it must be disclosed in

advance to the Company and then may be approved by the Governance Committee or, under certain circumstances, by the Board of Directors, if it does not present any improper conflicts of interest.

The Governance Committee of the Board of Directors is responsible for applying the Company's policies and procedures relative to related party transactions. The Audit Committee has been assigned the responsibility of monitoring potential related party transactions and reporting them to the Governance Committee. At the present time, these policies and procedures have not been documented but rather are based on reference to the meeting minutes of the Board of Directors and the Governance and Audit Committees.

The Company has not entered into any related party transactions that are required to be reported during 2007. The Company has entered into related party transactions with directors who are also participating providers discussed above.

SHAREHOLDER PROPOSALS FOR 2009 ANNUAL MEETING

Any shareholder proposals intended to be presented at the Company's 2009 Annual Meeting of Shareholders must be received by the Secretary of the Company at 100 Crowne Point Place, Sharonville, Ohio, 45241-5427 on or before November 27, 2008, for inclusion in the Company's proxy statement and form of proxy relating to the Annual Meeting of Shareholders. As to any proposal that a shareholder intends to present to shareholders other than by inclusion in the Company's proxy statement for the 2009 Annual Meeting of Shareholders, the proxies named in the management's proxy for that meeting will be entitled to exercise their discretionary voting authority on that proposal unless the Company receives notice of the matter to be proposed not later than February 12, 2009. Even if proper notice is received on or prior to February 12, 2009, the proxies named in the Company's proxy for that meeting may nevertheless exercise their discretionary authority with respect to such matter by advising the shareholders of that proposal and how they intend to exercise their discretion to vote on such matter, unless the shareholder making the proposal solicits proxies with respect to the proposal to the extent required by Rule 14a-4(c)(2) under the Securities Exchange Act of 1934, as amended.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our executive officers, directors and persons who own more than 10% of DCP Holding Company's Common Shares, to file initial reports of ownership on Form 3 and changes in ownership on Form 4 or Form 5 with the SEC. These executive officers, directors and 10% shareholders are also required by SEC rules to furnish us with copies of all such forms that they file. Based on our review of the copies of such forms received by us we believe that during fiscal 2007 all Section 16(a) filing requirements applicable to our executive officers, directors and 10% shareholders were complied with except that each of the following persons inadvertently was late in filing a Form 4 in connection with the Company's grants of restricted share units at the beginning of 2007: Fred J. Bronson, Michael Carl, Jack M. Cook, Ross A. Geiger, Roger M. Higley, David A. Kreyling, James E. Kroeger, Donald J. Peak, Fred H. Peck, Molly Meakin-Rogers, Sanford S. Scheingold, Stephen T. Schuler, Mark Zigoris, Anthony A. Cook, Robert C. Hodgkins and Ann Young. In addition, James E. Kroeger, Molly Meakin-Rogers and Sanford S. Scheingold filed one late Form 4 with respect to one transaction.

OTHER MATTERS

The following table sets forth the fees paid or accrued by us for services provided by Deloitte & Touche LLP, our independent registered public accounting firm, for each of our last two fiscal years:

	Fiscal Years Ended	
	2006	2007
Audit Fees	\$186,500	\$193,731
Audit Related Fees	0	20,900
Tax Compliance and Consulting Fees	25,400	30,145
Total	\$211,940	\$252,976

On March 11, 2008, the Audit Committee of the Board of Directors appointed Deloitte & Touche LLP as the Company's independent registered public accounting firm for the 2008. Representatives of Deloitte & Touche LLP, which served as the Company's independent registered public accounting firm during 2007 and are expected to be present at the Annual Meeting of Shareholders, will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions. The Audit Committee has established policies and procedures for the review and pre-approval of all audit and non-audit services to be provided by the independent auditor and the associated fees that are documented in the Company's Audit Committee Charter.

Miscellaneous

If the enclosed proxy card is executed and returned to us, the persons named in it will vote the shares represented by that proxy at the meeting. The form of the proxy permits specification of a vote for the election of directors as set forth under "Election of Directors" above, the withholding of authority to vote in the election of directors, or the withholding of authority to vote for one or more specified nominees. When a choice has been specified in the proxy, the Class A Common Shares represented will be voted in accordance with that specification. If no specification is made, those Class A Common Shares will be voted at the meeting to set the number of directors at twelve and to elect directors as set forth under "Election of Directors" above. Under Ohio law broker non-votes and abstain votes will not be counted in favor of or against any nominee but will be counted as present for purposes of determining whether a quorum has been achieved at the meeting. As stated above, director nominees who receive the greatest number of affirmative votes will be elected directors. All other matters to be considered at the meeting (including the vote to set the size of the Board) require for approval the favorable vote of a majority of the Class A Common Shares voted at the meeting in meeting or by proxy (or such different percentage as established by applicable law). If any other matter properly comes before the meeting, the persons named in the proxy will vote thereon in accordance with their judgment. The Company does not know of any other matter that will be presented for action at the meeting and the Company has not received any timely notice that any of the Company's shareholders intend to present a proposal at the meeting.

QUESTIONS?

If you have questions or need more information about the Annual Meeting of Shareholders, write to:

Anthony A. Cook
DCP Holding Company
100 Crowne Point Place
Sharonville, Ohio 45241
or call us at (513) 554-1100.

By Order of the Board of Directors



ANTHONY A. COOK
President and Chief Executive Officer

Sharonville, Ohio
March 26, 2008

2007 Accomplishments 2008 Priorities

Chairman Message

Stephen T. Schuler, DMD
Chairman, DCPG Board of Directors

Several years ago, The Dental Care Plus Group entered what we now refer to as our Smart Growth period. Through hard-won experience, we were very aware that growth is good if it increases shareholder wealth and when it establishes a foundation for sustainable profitability.

In 2007, the DCPG Board of Directors announced Innovative Expansion to succinctly signal the opportunities we are prepared to realize as well as the mindset required for success. DCPG is well positioned to grow through new territories, new products and new strategic alliances. Focus and accountability are the keys to expansion that benefit provider shareholders. The element that will distinguish DCPG from other carriers with similar aspirations is innovation.

To achieve focus and accountability, the DCPG Board of Directors has identified four financial targets.

- To assure continued growth, stability and profitability of our company, operating revenue must continue to increase. Our target for this increase is eight to twelve percent annually.
- The concern that resonates most with providers is money at the chair. To assure the best possible reimbursement to our providers and to "raise the bar" for all dental insurers in our market, we target a minimum return of eighty cents on every premium dollar to providers through a combination of fee schedule reimbursement and withhold return.

- Critically important to our shareholders is realizing growth and value in our Common A & B Shares. As such, we target a minimum ten percent increase on beginning equity annually which increases stock price by that same amount.

- Advancing steadily toward an A.M. Best B+ rating increases the company's competitiveness and provides greater flexibility as we expand. We look for continued improvement in this rating each year.

Fostering innovative thinking is the charge of our President and CEO, Anthony Cook. He has demonstrated the ability to build a management team able to recognize, critically evaluate and realize expansion opportunities. He has also reinforced a corporate culture that remains focused on its goals, yet open to feedback from stakeholders and business partners, including non-shareholder dentists, brokers and employers.

Innovative Expansion does not represent a new vision for DCPG since Smart Growth is a philosophy that will continue to guide the company's decisions. Rather, Innovative Expansion recognizes a wider horizon that the company is prepared to critically survey for opportunities to maximize shareholder return.

CEO Message

Anthony A. Cook, MBA, MS
President & CEO

Thanks, in large part, to the leadership of our Board of Directors, DCPG is becoming a more focused competitor. Their leadership cannot be underestimated in the current competitive environment or at a time when the company has more opportunities to build shareholder wealth and a platform for sustainable profitability than at any other point in its history.

DCPG, in tune with its founding mission, has proved a positive influence on the managed care environment wherever we operate. Our commitment to fair, competitive provider reimbursement has usually forced our competitors to offer comparable reimbursement plans. In addition, many of our competitors have been forced to offer richer benefits to members as a result of DCPG plan designs that encourage members to seek regular dental treatment.

The dental industry is currently driven by intensified competition and the implications of ever rising costs on the medical insurance front. Some players are positioned to leverage the current environment to advantage through consolidation and cooperation. Other players seem intent on pursuing short-term price-slashing strategies that may have negative long-term implications. DCPG is focused on what we do best, on what we do as well or better than anyone else – dental. Through innovative thinking, we continue to position ourselves for expansion through new territories, new products and new strategic alliances.

As a CEO, I always have one foot planted firmly in the present in order to respond effectively to a dynamic marketplace, and one foot in the future, in order to ensure that the decisions we make today move us toward our desired destination. The list of 2007 accomplishments and 2008 priorities included in this report reflect this approach to managing DCPG.

Director Nominees



Roger M. Higley, DDS
Vice Chairman
Practicing Dentist



Michael J. Carl, DDS
Director
Practicing Dentist



Ross A. Geiger
Director
Vice President, Business Development
Key Bank

Bios of board members running for re-election to the DCPG Board of Directors are included in the enclosed Proxy Statement.

2007 Accomplishments

- DCPG membership increased to 243,147 by year-end 2007. We retained about 98 percent of our membership despite intense competition.
- 2007 operating revenue increased by 10 percent over 2006. A surge in Miami Valley membership as well as progress in the Louisville market contributed to DCPG's overall increases in membership and operating revenue.
- The company continues to decrease its per member expenses through innovation and technology.
- The company moved its Ohio indemnity business to its own paper late in 2007, generating greater profit from this block of business.

2008 Priorities

- DCPG will continue to transfer business onto its own life license, eliminating the additional costs of writing indemnity and other products through a third party. In addition, DCPG is preparing to administer all of its own products, further reducing costs attributed to third-party administration.
- DCPG has forged important strategic alliances that we believe will drive aggressive growth throughout the Commonwealth of Kentucky and in the Ohio counties north and east of Dayton.
- DCPG is introducing new products and new initiatives aligned with our founding mission in response to employer needs and employer concerns.

Summary of Financial Targets and 2007 Results

Target: Increase operating revenue by 10 percent annually.

Results: DCPG increased operating revenue by 16 percent in 2007.

Target: Return at least 80 cents of every premium dollar to provider shareholders through a combination of reimbursement and withhold return.

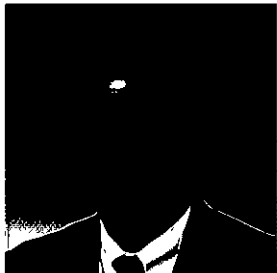
Results: DCPG returned 80.3 cents of every premium dollar to provider shareholders.

Target: Generate 10 percent return on beginning equity.

Results: DCPG generated 12.8 percent return on beginning equity.

Target: Make incremental improvement toward an A.M. Best B+ rating.

Results: DCPG continues to maintain healthy capitalization and demonstrate sound financial management which is recognized by many analysts within the industry, including A.M. Best.



David A. Kreyling, DMD
Director
Practicing Dentist



James E. Kroeger, MBA, CPA
Director
Director of Internal Audit,
The Midland Company



Donald J. Peck, CPA
Director
President
DJ Peck Consulting

DCPG Board of Directors

Executive Committee

Stephen T. Schuler, DMD
Chairman

Roger M. Higley, DDS
Vice Chairman

Fred J. Bronson, DDS
Secretary

Fred H. Peck, DDS
Treasurer

Directors

Michael J. Carl, DDS

Jack Cook, MHA
BreakOut Solutions, LLC

Ross A. Geiger
Vice President,
Business Development
Key Bank

David A. Kreyling, DMD

James E. Kroeger, MBA, CPA
Director of Internal Audit
The Midland Company

Donald J. Peak, CPA
President
DJ Peak Consulting

Molly Meakin-Rogers, MBA, CPA
Director of Reimbursement
St. Elizabeth Medical Center

Mark Zigoris, DDS

DCPG Senior Management

Anthony A. Cook, MBA, MS
President & CEO

Robert Hodgkins, Jr., MBA, CPA
Vice President & CFO

Ann Young
Chief Sales & Marketing Officer

Laura S. Hemmer
Chief Information & Technology
Officer

Jodi Fronczek
Director, Group Benefits & Product
Development

Cindy Law
Director, Operations

Libby Allen
Director, Provider Relations

Allison Dubbs
Director, Corporate Communications

Financials

Location for Annual Shareholders Meeting:

**Sharonville Convention Center
11355 Chester Road
Sharonville, Ohio 45246
513-771-7744**

Driving Directions

From the North (Dayton):

Take I-75 South to the Sharon Road Exit (#15). Turn right on Sharon Road. Go one block to Chester Road and turn right. The Convention Center is located ½ mile on the left.

From the North (Columbus):

Take I-71 South to I-275 West. Take I-75 South toward Cincinnati to the Sharon Road Exit (#15). Turn right on Sharon Road. Go one block to Chester Road and turn right. The Convention Center is located ½ mile on the left.

From the West:

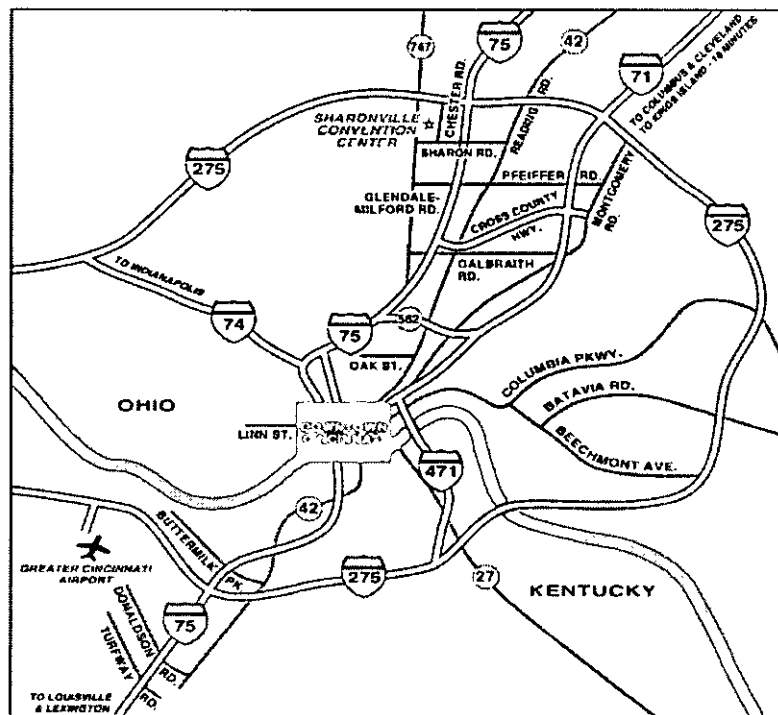
Take I-275 around the north side of the outer-belt (North/East) to I-75 South. Take I-75 South to the Sharon Road Exit (#15). Turn right on Sharon Road. Go one block to Chester Road and turn right. The Convention Center is located ½ mile on the left.

From the East:

Take I-275 around the north side of the outer-belt (North/West) to I-75 South. Take I-75 South to the Sharon Road Exit (#15). Turn right on Sharon Road. Go one block to Chester Road and turn right. The Convention Center is located ½ mile on the left.

From the South:

Take I-75 North to the Sharon Road Exit (#15). Turn left on Sharon Road. Go one block to Chester Road and turn right. The Convention Center is located ½ mile on the left.



DCP HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2007

	2007	2006	2005
PREMIUM REVENUE	\$ 59,949,897	\$ 51,587,458	\$ 44,857,237
EXPENSES:			
Healthcare services expense (including shareholder healthcare service expense of \$38,941,000, \$36,972,000, and \$33,476,000 in 2007, 2006, and 2005, respectively)	48,152,505	42,025,929	36,249,406
Selling, general and administrative expenses	11,149,023	9,755,183	8,016,078
Total expenses	59,301,528	51,781,112	44,265,484
OPERATING (LOSS) INCOME	648,369	(193,654)	591,753
NON-OPERATING INCOME (EXPENSE):			
Investment income	269,343	198,380	104,214
Other income	94,012	305,437	221,339
Interest expense	(94,652)	(121,200)	(129,373)
Net non-operating income	268,703	382,617	196,180
INCOME BEFORE INCOME TAX	917,072	188,963	787,933
PROVISION (BENEFIT) FOR INCOME TAX:			
Current	456,244	139,190	295,771
Deferred	(143,657)	(53,168)	1,816
Total	312,587	86,022	297,587
NET INCOME ON REDEEMABLE COMMON SHARES	\$ 604,485	\$ 102,941	\$ 517,966
BASIC EARNINGS PER REDEEMABLE COMMON SHARE	\$ 72.88	\$ 12.59	\$ 55.14
DILUTED EARNINGS PER REDEEMABLE COMMON SHARE	\$ 72.50	\$ 12.59	\$ 55.14

See notes to consolidated financial statements in the accompanying 2007 Annual Report to Shareholders.

DCP HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2007 AND 2006

	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash	\$ 5,517,908	\$ 6,223,757
Short-term investments at fair value, cost of \$1,100,000 and \$1,600,000 at December 31, 2006 and 2005, respectively	857,848	1,096,721
Accounts receivable, net of allowance of \$37,000 and \$83,000 at December 31, 2006 and 2005, respectively	587,380	406,507
Prepaid expense, deposits, and other	240,797	141,103
Deferred federal income tax, current	<u>142,429</u>	<u>75,881</u>
Total current assets	<u>7,346,362</u>	<u>7,943,969</u>
INVESTMENTS	<u>1,109,683</u>	<u>796,189</u>
PROPERTY, PLANT, AND EQUIPMENT:		
Land	364,000	364,000
Building and building improvements	2,236,866	2,221,171
Furniture and equipment	<u>1,925,481</u>	<u>1,885,238</u>
Total property, plant, and equipment	4,526,347	4,470,409
Less accumulated depreciation and amortization	<u>(1,583,009)</u>	<u>(1,274,733)</u>
Total property, plant, and equipment—net	<u>2,943,338</u>	<u>3,195,676</u>
INTANGIBLE ASSETS, Net of accumulated amortization of \$246,000 and \$50,000 at December 31, 2006 and 2005, respectively	<u>188,532</u>	<u>203,880</u>
GOODWILL	<u>136,355</u>	<u>136,355</u>
DEFERRED FEDERAL INCOME TAX, NON-CURRENT	<u>101,375</u>	<u>11,355</u>
OTHER ASSETS	<u>459,586</u>	<u>511,910</u>
TOTAL ASSETS	<u>\$12,285,231</u>	<u>\$12,799,334</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term obligations	\$ 343,624	\$ 385,902
Claims payable	2,490,251	3,987,591
Accounts payable and accrued expenses	1,917,966	1,811,349
Unearned premium revenue	666,411	587,963
Federal income tax payable	137,497	19,238
Other current liabilities	<u>62,644</u>	<u>50,753</u>
Total current liabilities	<u>5,618,393</u>	<u>6,842,796</u>
LONG TERM LIABILITIES:		
Mortgage loan payable	1,140,000	1,260,000
Capital lease obligation	19,253	242,877
Deferred compensation	<u>416,374</u>	<u>127,670</u>
Total long-term liabilities	<u>1,575,627</u>	<u>1,630,547</u>
TOTAL LIABILITIES	<u>7,194,020</u>	<u>8,473,343</u>
REDEEMABLE COMMON SHARES:		
Class A, Redeemable Common Shares, no par value—authorized, 7,500 shares; issued and outstanding, 681 and 691 at December 31, 2006 and 2005, respectively	392,603	362,853
Class B Redeemable Common Shares, no par value—authorized, 100,000 shares; issued and outstanding, 7,438 and 7,769 at December 31, 2006 and 2005, respectively	<u>4,698,608</u>	<u>3,963,138</u>
Total redeemable common shares	<u>5,091,211</u>	<u>4,325,991</u>
SHAREHOLDERS' EQUITY—Preferred Shares; no par value—authorized, 100,000 shares; issued, none		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$12,285,231</u>	<u>\$12,799,334</u>

See notes to consolidated financial statements in the accompanying 2007 Annual Report to Shareholders.

Treasurer's Report

It is my pleasure to bring to you a report on the DCP Holding Company ("DCPH") financial operations. As expected, DCPH performed very well during fiscal year 2007. Total annual premium revenue increased 16.1 percent, from approximately \$51.6 million in 2006 to approximately \$59.9 million in 2007.

DCPH now has three wholly owned subsidiaries: Dental Care Plus, Inc., Insurance Associates Plus, Inc., an insurance agency, and Adenta, Inc. an insurance agency and a discount dental plan with approximately 500 dental providers under contract. DCPH is growing sales, maintaining strong earnings, and generating substantial levels of cash flow. The net result is that our balance sheet is exceptionally strong, providing enormous flexibility to invest in growing the business while seeking new opportunities to create value for shareholders.

Our excellent financial standing is also demonstrated by the following: Over \$48.1 million, or approximately 80.3 percent of premium revenue, was returned to dentists in the form of paid claims and withhold return. We paid out \$900,000 in withhold to providers in 2007 and established a liability for an additional \$650,000 in December of 2007 that was paid to providers in March of 2008. Including investment in electronic systems and applications, total operating expenses (before other income, taxes and withhold return) came to approximately 18.6 percent of premium revenue in 2007. Our goal is to maintain and increase operating efficiencies by developing electronic interfaces with clients, providers and members.

Income before income tax was approximately \$917,000. After considering income taxes of approximately \$313,000, the Company reported net income of approximately \$604,000. As of December 31, 2007, the Company has maintained a capital and surplus above the capital requirements legally mandated by the Ohio Department of Insurance. In addition, this capital and surplus level allowed the Company to maintain the A.M. Best B- rating of Dental Care Plus, Inc.

Looking ahead in fiscal year 2008, we expect to develop new products and to pursue new market opportunities to assist in revenue growth and to see continued returns on our electronic systems investment. We continue to expect strong performance to be driven by the stability of our existing revenue base and maximized through organizational changes designed to strengthen DCPH.

Our business model, corporate values, and strategic growth plan, will continue to drive us toward greater quality, profitability and smart growth for our shareholders, clients and employees.

Respectfully submitted,

Fred H. Peck, DDS
Treasurer

provider

share

www.dentalcareplus.com

administrat

patient

100 Crowne Point Place
Cincinnati, OH 45241

513-554-1100
1-800-367-9466

END